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Accounting Profession in Sweden; Professional Accounting in Foreign Country Series

Panell Kerr Forster U.S.A.

Svensson, Erikson & Tjus, Sweden

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The Accounting Profession in Sweden

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



The Accounting Profession in Sweden

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

**Pannell Kerr Forster
U.S.A.**

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Sweden**

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Series Editor



AICPA

American Institute of Certified Public Accountants

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of March 1987. Changes after this date in the standards of either the United States or Sweden may alter the comparisons detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Sweden. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Swedish auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Sweden but is designed instead to focus primarily on differences from those of the United States.

John Graves
Director
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1

The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The Stockholm Chamber of Commerce began formally authorizing public accountants in 1912. The Royal Board of Trade (“Kommerskollegium”) assumed this responsibility in 1973.

2. The “Auktoriserade Revisor” (AR), or authorized public accountant, is the highest level of competence recognized by the Royal Board of Trade and this function is the mainstay of the Swedish public accounting profession. The requirements for authorization are—

- A Bachelor of Commerce degree from a Swedish university or school of economics, consisting of a program of three and one-half years emphasizing economics, business administration, accounting and auditing, and business law. A candidate must achieve honor grades in business administration and law.
- Five years of experience in the accounting field, under the supervision of an authorized public accountant.
- Residency in Sweden, with no restrictions on personal property.

3. Unlike United States practice, a written examination is not required for authorization to function as an authorized public accountant; it is, however, a rarely used alternative to the degree requirement.

4. The “Godkänd Revisor” (GR)—or approved public accountant—is the junior qualification recognized by the Royal

Board of Trade. Requirements for GR status are the same as for an AR, except that the necessary knowledge of accounting can be acquired through a two-year study program at the university level.

5. After completing their respective requirements, AR and GR candidates must file a declaration stating their ethics and responsibilities. The license is then issued and is renewable every five years.

6. The accounting profession is not limited to qualified accountants. Any Swedish citizen having the requisite knowledge of accounting and financial matters may provide such services without formal qualifications. The auditors of certain companies must be qualified accountants, however.

7. In addition to accounting and auditing services, a Swedish accountant provides other services; examples are valuations, investigations of tax cases, arbitrations, administrations of property and estates, and acting as a trustee in bankruptcy cases. Although tax consulting work is common, preparation of tax returns places responsibility on the accountant for validity of the information. Because of this responsibility, the service is usually provided only after the accountant audits the information.

Foreign Reciprocity

8. Citizenship is not required to achieve AR or GR status, provided that all other requirements are met. A foreigner who is not qualified as an AR or a GR may be appointed joint auditor if the permission of the Royal Board of Trade is granted.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

9. Legislation for Swedish limited liability companies prescribes certain accounting and auditing practices to be followed by Swedish accountants. The Companies Act addresses auditing requirements, including appointment and qualifications of auditors as well as accounting matters. The Accounting Act of 1976 (Accounting Act) provides statutory guidance for the preparation of annual reports and the maintenance of accounts. Taxable income is derived

directly from the company's accounts; tax law is consequently influential in Swedish accounting.

10. “Foreningen Auktoriserade Revisorer” (FAR)—or Institute of Authorized Public Accountants—was formed in 1923. It periodically issues statutes and recommendations on accounting and auditing matters. Compliance with FAR recommendations, unlike with statutory regulations, is not mandatory; these recommendations do represent sound business practices, however, and compliance is encouraged by FAR members. Basically, FAR recommendations are guidelines for meeting the requirements of the Companies Act.

11. The “Bokforingsnamnden” (BFN)—or National Accounting Standards Board—is a government agency formed in 1976 to develop and define generally accepted accounting principles. The BFN issues accounting notices that deal mainly with bookkeeping rather than financial reporting and have had a less significant effect on the profession than the Companies Act, the Accounting Act, tax law, and the FAR recommendations.

Ethics Requirements

12. The Companies Act prohibits the engagement of an auditor who is not personally, professionally, and financially independent from an entity. The FAR has developed rules of professional ethics similar to those followed by U.S. certified public accountants that include guidelines on advertising, independence, confidentiality, and professional conduct.

13. The AR or GR is forbidden to carry on any trade or business other than public accounting. An exception to this rule is generally granted to those who hold teaching positions.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

14. A candidate for membership in the FAR must—

- (a) Have Royal Board of Trade authorization,
- (b) Be a practicing AR for one year before applying, and

(c) Intend to continue in practice and be judged professionally suitable.

The “Svenska Revisorsamfundet” is the Swedish Accountants Association. Membership is predominantly GRs; however, other accountants, including ARs, are enrolled. The qualifications for membership in the Svenska Revisorsamfundet are similar to GR requirements.

Rights of Membership

15. Enrollment in the FAR or Svenska Revisorsamfundet is entirely voluntary, and therefore no particular rights or privileges are awarded to members.

Number of Members

16. FAR membership is not mandatory, but approximately thirteen hundred ARs are FAR members. At present there are about twelve hundred members in the Svenska Revisorsamfundet.

CPE Requirements

17. Among other matters, the FAR’s recommendation, *Quality Control*, states that members should define continuing education requirements for their staff, should apply on-the-job training by experienced staff members, should circulate policy statements and new items, and should hold staff meetings regularly. Continuing professional education (in the Svenska Revisorsamfundet) is not mandatory, but such a requirement is planned for the near future.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

18. The main purpose of a Swedish audit is to satisfy the requirements of the Companies Act. The independent auditor certifies whether the annual report is in compliance with the Companies Act and gives a fair presentation of the company's accounts. The auditor's report is used by shareholders for decisions on (a) adoption of the annual report and (b) the discharge of management of its liability for the year.

Entities That Are Required to Be Audited

19. The Companies Act requires any entity with limited liability status under its jurisdiction to have an audit of its annual report. Entities with limited liability status include—

- a. Limited liability companies (limited companies).
- b. Branches of foreign companies.
- c. Cooperative units and banks. In addition, certain partnerships are required to file an audited annual report depending on size, as defined by law.

20. The annual report is composed of the balance sheet, income statement, notes thereto, the auditors' report, and the administration report. A statement of changes in financial position is only

necessary for entities required to appoint an AR. (See paragraphs 62 and 63 for a discussion of the administration report.)

Appointment and Qualifications of Auditors

21. The Companies Act requires appointment of at least one auditor by the shareholders at the general meeting. The appointment is of an auditor—not an auditing firm. If a firm is appointed, the person principally responsible for the audit is considered the auditor and must be duly qualified. If appointment is not made, the County Administration will appoint a duly qualified auditor. The auditor's term of office is prescribed in the entity's articles of association, and may cease at the request of the auditor or the appointing body.

22. The auditor of a limited company must be qualified by the Royal Board of Trade and must be either an AR or GR.

23. The auditor must be an AR if any one of the following criteria is met:

- The net value of assets according to the adopted balance sheets for the two preceding years exceeds an amount as determined by the National Insurance Act. This amount for 1985 was a net value of assets SEK 21,800,000 and (as of March 1986), SEK 23,300,000.
- The average number of employees exceeds 200.
- The company is listed on the Stockholm Stock Exchange.
- The company is a branch of a foreign entity.
- The company is a partnership meeting one of the first two criteria mentioned above.

24. For companies not required to appoint an AR, owners of one-tenth of the shares may request such an appointment at the general meeting. The vote of the owners of one-tenth of the shares is also required for appointment of a joint auditor, who shall participate in the audit together with the other auditors.

25. The Companies Act also states that at least one of the auditors of a parent company shall, if possible, be appointed as auditor for a subsidiary.

Auditing and Reporting Responsibilities

26. The board of directors and the managing director of a company are responsible for providing shareholders with an audited annual report—prepared in compliance with the Companies Act—as well as generally accepted accounting principles, and sound business practices. (See paragraph 96 for the requirements to appoint a managing director.) They are also responsible for maintenance of adequate accounting records and a system of internal accounting control.

27. Upon completion of the audit, an auditor is required to furnish a written report thereon that is included in the annual report and is presented at the general meeting of shareholders. An auditor must satisfy any shareholder's request for information, provided such disclosure would not violate the auditor's duty of confidentiality. The auditor also has a duty to provide information to other appointed auditors, successor auditors, or company liquidators. The auditor can be held liable for client damages that were caused intentionally or caused by carelessness. Consequently, an auditor must be insured for at least SEK 300,000.

Filing of Reports

28. Annual reports of limited companies and branches of foreign entities are filed with the Patent and Registration Office (PRV) one month after the general meeting. Interim reports are sent to the PRV two months after the period covered by the report. Partnerships required to appoint an AR must file their reports with the County Administration within six months after fiscal year-end.

29. Certification by either a director or the managing director that the accounts have been adopted accompanies the annual report sent to the PRV. Also included are details of the general meeting's decision on allocation of the company's profit or loss and a current listing of its auditors.

30. All copies filed with the PRV and County Administration are available for public inspection.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

31. The Companies Act states that the independent audit should be carried out in accordance with generally accepted auditing standards. FAR recommendations and various sections of the Companies Act are the main sources of Swedish auditing standards. (See appendix A for a listing of FAR recommendations.) These standards, although codified, are much less detailed than U.S. auditing standards. (See appendix D for a summary comparison of U.S. GAAS and auditing standards in Sweden.)

32. Professionals rely mainly on personal judgment when applying specific auditing procedures and policies. It should be noted that compliance with FAR recommendations is not mandatory, unlike requirements of Swedish law.

33. Auditing procedures applied in Sweden that differ from U.S. procedures include the following:

- The auditor is not required to confirm receivables nor observe inventory counts. Nevertheless, it is the predominant practice to do so.
- Auditors generally do not receive written representations from management and management's legal counsel.

34. FAR recommendation on auditing matters, *The Audit of the Accounts of Swedish Limited Companies—Nature and Scope of the Examination* (adopted in 1970), recognizes the value of information received by the above-mentioned procedures. However, the extent of audit procedures required must be determined by the auditor for each individual case.

35. Reporting standards applied in Sweden that differ from U.S. standards include the following:

- The auditor's report is not required to state directly whether the annual report is presented in conformity with generally accepted accounting principles. Nevertheless, by stating that the annual report has been prepared in accordance with the Companies

Act, it is implied that generally accepted accounting principles and sound business practices have been followed.

- Auditors' reports are not required to address the consistency of application of accounting principles. Management's administration report, however, is required to disclose any changes in accounting practices from the previous period. If such disclosure is not made, it is the auditor's responsibility to include such information in his report.
- The auditor's report is generally dated when signed, not on the last day of fieldwork as in the United States.

36. The major difference regarding both reporting and fieldwork is the Companies Act provision that requires the auditor to apply audit procedures that not only will enable him to report on the annual report but will also enable him to express opinions regarding (a) the discharge from liability of both the board of directors and the managing director for their administration for the year and (b) management's proposal for disposition of the unappropriated earnings or deficit.

General Standards

37. The general standards applicable to U.S. auditors are also addressed by Swedish standards as follows:

- The Companies Act requires an auditor to have sufficient knowledge to carry out an engagement. Requirements for qualification by the Royal Board of Trade stipulate that an accountant undergo rigorous training and testing. Continuing education is also recommended by the FAR to maintain members' technical expertise.
- Both the Companies Act and FAR recommendations consider independence in fact and in appearance to be a requisite for any auditing engagements.
- Confidentiality and due professional care are qualities that, in addition to being mandated by law, are considered a necessity for effective client relationships.

Standards of Fieldwork

38. FAR recommendation on auditing matters, *The Audit of the Accounts of Swedish Limited Companies—Nature and Scope of the*

Examination, gives the auditor guidance in carrying out his examination. The guidance is similar to U.S. standards and places emphasis on a review of the company's system of internal accounting control. It indicates that the auditor should—

- Investigate the system's intended function.
- Verify that the system fulfills its intended function.
- Evaluate the system's appropriateness.

39. The review of the system provides the auditor with a basis for determining the extent of further tests necessary to report on the company's annual report. The review also enables an auditor to evaluate management in its duty to provide such a system.

40. The guidance also indicates that the auditor's work should be planned in such a way to enable the audit to be completed as soon as possible after year-end. To achieve this goal, interim work should be performed wherever possible, particularly in the area of internal accounting control. Interim work allows an auditor to keep a company's operations under continuous review during the period of the assignment.

41. The guidance also provides that the auditor should obtain sufficient evidential matter during the course of an audit, in order to report with any degree of confidence. The value and amount of support obtained are directly related to the degree of relative risk involved, which is determined by the strength of the system of internal control. All supporting information should be documented and filed in a systematic manner.

42. Any assistants employed by the auditor should be sufficiently trained and experienced in order to carry out their assignments and be properly supervised. This is similar to U.S. standards.

Standards of Reporting

43. Provisions of the FAR recommendation entitled *Audit Reports and Endorsements for Limited Companies* generally parallel the requirements in the Companies Act pertaining to the contents of the auditor's report. The recommendation does, however, elaborate on specific points and provides report examples.

44. Chapter 10 of the Companies Act states that the auditor's report should include—

- A statement about whether the annual report has been prepared in accordance with the Act.
- A statement regarding the adoption of the balance sheet and income statement.
- A statement regarding the proposal included in the administration report for disposition of the unappropriated earnings or deficit.
- A statement regarding the discharge from liability of members of the board of directors and the managing director.

45. The auditor's statements pertaining to the last three items mentioned above take the form of direct recommendations either for or against each respective item. This aids the shareholders in deciding on adoption of the annual report and the discharge of management liability for the year. Any reason for not recommending adoption of the financial statements, management's proposals for unappropriated earnings or deficit, or discharge from liability should be clearly disclosed in the auditor's report.

46. The auditor may abstain from a direct recommendation or objection to the adoption of financial statements when an uncertainty exists that is significant and decisive to the entity's continued existence. (A disclaimer would be appropriate in this situation.) The auditor may recommend adoption of the financial statements if an uncertainty is significant but is not threatening to the entity's continued existence.

47. When a requirement of the Companies Act has been omitted or insufficiently disclosed, the auditor's report should state that fact. The auditor should make the required disclosures. The Companies Act requires the auditor to state that the annual report does not conform with the Companies Act when there are significant departures therefrom. A deviation of lesser significance will warrant an "except for" qualification, together with explanations.

48. An auditor's report will generally include an introduction stating that the audit has been performed in accordance with generally accepted auditing standards. (See appendix C for an example of a standard auditor's report.)

49. When necessary, the report should include a statement that a schedule of loans to management personnel has been prepared. Mention should be made of any act by a member of the board of

directors or the managing director that conflicts with the Companies Act or company policies. Any other information that the auditor wishes to bring to shareholders' attention may be included in the report, provided that his duty of confidence is not impaired.

50. The auditors of a parent company must render a separate report on the consolidated group's financial statements. Any scope limitation, such as an inability to audit a certain subsidiary, should be explained in the report. This also applies to situations when the reliability of information from another auditor about a significant subsidiary is not satisfactory to the parent company auditor. The auditor should also determine the effects of these scope limitations on the statement concerning conformity with the Companies Act and on the recommendations included in the report for both the parent company and the consolidated group.

51. The Companies Act also requires an auditor to endorse the financial statements, making reference to the audit report. A parent company auditor must endorse the consolidated financial statements, as well as those of the parent.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

52. The Accounting Act states that any person or legal entity carrying on a business must maintain accounting records in accordance with generally accepted accounting principles. The Companies Act, the Accounting Act, BFN notices, and FAR recommendations collectively form Swedish generally accepted accounting principles. Swedish tax law also has a significant influence on accounting practices. (See appendix B for a listing of BFN standards.)

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

53. The company's balance sheet, income statement, and the related notes for the current and previous year are presented in the annual report. The order in which the statements are presented is optional.

54. The Companies Act and Accounting Act provide sample formats of balance-sheet and income statement presentation. When

the nature of a business necessitates, deviations from the sample formats are acceptable to better represent financial position and results of operations.

55. Most Swedish companies use the balance-sheet format used in the United States. The asset side begins with current items, followed by fixed assets. The liability and equity side begins with current then long-term liabilities, followed by untaxed reserves, then the equity section. Items such as treasury stock, pledged assets, contingent liabilities, and any intercompany receivables or payables between parents and subsidiaries are presented as memorandum items on the balance sheet.

56. The income statement should be presented in a layered format. The first layer is operating income and expenses to derive operating profit or loss. This is followed by (a) depreciation, (b) financial income and expenses, (c) extraordinary items, (d) changes in untaxed reserves, and (e) taxes before arriving at net income or loss for the year.

57. Swedish companies do not present a formal statement of retained earnings because the financial statements are prepared before dividends and appropriations to reserves are approved at the general meeting of shareholders. Balance-sheet presentation of retained earnings shows deductions for such amounts that were approved at the general meeting subsequent to the prior year.

58. All companies required to appoint an AR must include a comparative statement of changes in financial position with the administration report. Most companies present the statement, defining funds as working capital; however, a presentation that defines funds as cash resources is also acceptable.

59. The notes are considered inseparable from the financial statements. The Companies Act and Accounting Act require certain disclosures to be included in the notes. The information mentioned earlier as memorandum items may be included in the notes instead of on the balance sheet. All headings on the financial statements supplemented by note disclosure should give reference to the note. (See appendix C for illustrative financial statements.)

Types of Statements Prepared

60. In addition to its own financial statements, a parent company should include a consolidated balance sheet and income statement for the current and previous financial year in its annual report. (Paragraph 74 further discusses the requirements for concluding financial statements.) A parent company's administration report should (a) describe the methods and valuation principles used in preparing the consolidated accounts and (b) should disclose intercompany profits and losses and, if applicable, a comparative consolidated statement of changes in financial position.

61. All companies meeting the requirements for appointing an AR must issue at least one interim financial report a year that must cover at least six months but not more than two-thirds of the financial year. Comparative figures for the same period of the previous year should also be shown. The information included should be a brief description of results of operations, investments, and changes in working capital since the end of the preceding financial year.

62. The report on administration is required for all Swedish limited liability companies. Information contained in the administration report is that not disclosed in the financial statements but necessary for assessment of a company's affairs.

63. Disclosures required by the Companies Act that should be in the administration report include the following:

- Information on the average number of employees during the financial year
- Total amount of salaries and wages for the year, with separate amounts for management, manual workers, and all others
- Earnings-related compensation to management
- A proposal by management for the disposition of unappropriated earnings or deficits
- Any change in classification of accounts or change in application of accounting principle from the previous year
- Events of major importance to the company, whether they have occurred during the financial year or after year-end

**SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES
AND COMPARISON WITH U.S. GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES (GAAP)**

64. The basic concepts of going concern, conservatism, matching, materiality, accrual accounting, and historical cost adopted in the United States are followed in Sweden as well. (See appendix E for a summary comparison of U.S. GAAP and accounting standards in Sweden.) However, tax law is considerably more influential on financial statement presentation in Sweden. Swedish tax law requires any amounts used for tax purposes to be recorded in the company's books. Accumulated charges for depreciation and inventories (along with other investment incentives) that are allowed for tax purposes which exceed amounts permitted for book purposes are appropriated to untaxed reserves.

65. Deferred tax accounting is not found in Sweden. The deferred tax liability on the reserved amounts is not reflected in the financial statements, thereby causing a distortion to what a foreign reader would consider fair presentation. (Untaxed reserves are further explained in paragraphs 121 through 125.)

Receivables

66. Accounts receivable are required by the Accounting Act to be stated at the amount expected to be received. Receivables deemed uncollectible may be written off by a direct reduction, or by setting up a reserve which reduces the asset. Tax law does not allow deductions for estimated bad debts. Receivables are commonly presented as a net figure on the balance sheet. Receivables from subsidiaries, management, or the auditors must be shown separately.

Inventories

67. The Accounting Act requires that inventories be stated at the lower of cost or market value. Cost is determined on a first-in first-out (FIFO) basis, as required by tax law. The full-absorption costing method is predominantly used for manufactured inventory items. Market value is generally defined as sales value, less estimated selling expenses. However, market value may be determined by replacement cost, less an allowance for obsolescence, or

any other value deemed appropriate to the business' nature. Tax law allows for a 5-percent obsolescence deduction and appropriations to untaxed reserves.

Long-Term Contracts

68. Long-term construction-type contracts are usually accounted for by the completed contract method. Provisions for losses are required when reasonably expected.

Fixed Assets

69. The Accounting Act defines a fixed asset as one intended for continuous use in or possession by the business. This definition of fixed assets is not limited to property, plant and equipment as in the United States, but also includes investments, intangibles, and deferred expenses generally labelled as long-term assets in the United States. Fixed assets should be stated at net book value (cost less accumulated depreciation or amortization) and disclosed by major category on the balance sheet. Capitalization of interest costs on debt incurred for construction of fixed assets is not required and is seldom practiced.

70. Depreciation is required on fixed assets which continuously decline in value because of the passage of time, usage, or other similar factors. Generally, salvage value is not considered when computing depreciation charges. Income statement presentation of depreciation is twofold. When deriving operating income, the depreciation charge is normally computed on a straight-line basis over the asset's estimated life. Any difference between depreciation for book and tax purposes is shown as a transfer to/from untaxed depreciation reserve.

71. If an asset's true value has permanently declined below its net book value, the asset must be written down accordingly. Fixed assets whose value exceeds net book value may be written up, provided that the offsetting credit is used for (a) required write-down of other fixed assets or (b) an increase of capital by issuing bonus shares (stock dividend). Revaluations for real estate may not exceed assessed value for tax purposes. Amounts for revaluation on depreciable assets must be written off over the asset's remaining useful life.

72. Required disclosures pertaining to fixed assets include—

- Cost, accumulated depreciation, and write-offs thereon up to the balance sheet date.
- Assessed value of real estate.
- Amounts of revaluations made during the year.
- The remaining undepreciated balances of revalued fixed assets.
- Methods used for depreciation and amortization of various fixed assets.

Investments

73. Investments in marketable securities classified as current assets are carried at the lower of cost or market value, determined on each individual investment. Changes in the carrying value of investments are included in net income.

74. Investments in associated companies and subsidiaries as well as other long-term investments are carried as fixed assets on the parent company's balance sheet. An associated company is one in which an investor company owns a 20-percent to 50-percent continuing ownership interest and can exercise some degree of control over that entity's operations. A parent-subsidiary relationship can be formed either when one company acquires more than 50-percent voting of shares in another company or when one company by shareholding or agreement alone has a controlling influence and a significant interest in the earnings of another company. Such a relationship requires that consolidated financial statements be included in the parent company's annual report.

75. Investments classified as fixed assets are stated at cost and adjusted only for permanent declines in value. The equity method of accounting for investments used in the United States is not predominant. Dividends received in excess of accumulated earnings since acquisition do not reduce the cost basis of the investment. Dividends received from a subsidiary are included as income on a parent's separate financial statements but are eliminated in the consolidated financial statements.

76. If a subsidiary is not consolidated, the reason for such exclusion must be disclosed. Subsidiaries operating under conditions that restrict transfer of funds to the parent—thereby impair-

ing the parent's control over assets and operations—are usually not consolidated. In addition, if it is impossible to obtain meaningful information in the first year that consolidation is required, a subsidiary will not be consolidated. Consolidation is customary even though a subsidiary's business differs significantly from that of the parent.

77. Required disclosures pertaining to investments in shares of other companies include the name of the investee company, number of shares held, their nominal amount, and the amount carried on the balance sheet. The market value of holdings in listed companies should also be disclosed.

Liabilities

78. Liabilities due within one year are considered current and must be segregated from long-term liabilities on the balance sheet. Information such as interest rates, maturity dates, and amounts of installments pertaining to long-term debt is not required and is seldom disclosed. Discounts on outstanding debt may be directly expensed, which is the most prevalent practice, or amortized over the term of the debt. Premiums are generally amortized over the term of the debt.

79. Liabilities secured by the company's assets should be disclosed in the financial statements.

Business Combinations

80. Most business combinations in Sweden are accounted for by the purchase method, as supported by the FAR recommendation entitled *Concerning the Preparation of Consolidated Accounts*. As in the United States, an excess of cost over book value of net assets acquired is assigned to the tangible and identifiable intangible assets on the basis of their fair value. Any remaining excess (goodwill) is amortized against income for a period not exceeding ten years. Any negative goodwill (termed "badwill") is recorded as a liability and taken to income over an appropriate period.

81. The FAR recommends the pooling-of-interests method when the combination has more characteristics of a merger between two comparable companies than those of an acquisition. Application of the pooling method requires (a) that the merger takes place by the

acquirer's issue of shares, (b) that the combined companies are of comparable size, and (c) that their respective activities are continued. The pooling-of-interests method is rarely used in Sweden.

Extraordinary Items

82. Neither the Companies Act nor the Accounting Act provides any guidance about what items may or may not be considered extraordinary. In 1982, the FAR issued a draft recommendation attempting to establish criteria. The draft states that an item must be unrelated to operations and be of rare occurrence and significance.

83. The general practice, however, is to treat items that are considered nonoperating or nonrecurring as extraordinary. Examples include (a) gains or losses on sales or scrapping of fixed assets, (b) exchange gains and losses, (c) share and bond issue costs, and (d) plant shut-down costs. These items would not normally meet the criteria established by U.S. standards.

Research and Development Costs

84. The Accounting Act permits research and development costs to be deferred if they have significant value to future operations. The amount deferred must be amortized over a period not exceeding five years. Any unamortized amount deemed completely worthless should be immediately written off. The predominant practice in Sweden, however, is to expense research and development costs as incurred because tax law allows such treatment. Expenditures for improving products or processes, technical assistance, trial runs, market research and development are items typically considered to be research and development costs.

Leases

85. Leases are not covered by the Companies Act or Accounting Act. The FAR briefly addresses the topic with the following recommendations:

- Assets subject to leases that include an obligation to purchase should be capitalized by the lessee.
- Gains on sale and leaseback transactions should be spread over the life of the lease rather than recognized immediately as income.

86. Adherence to these recommendations has not been widespread. Generally, both parties record the transaction as an operating lease. In addition, disclosures required in the United States regarding periodic payments and lease term are generally not provided by Swedish companies.

Inflation Accounting

87. Accounting for inflation or changes in general price levels is not addressed by the Companies Act or Accounting Act. In 1980 the FAR issued a draft recommendation that prescribed current cost and inflation-adjusted disclosures and was intended for all listed companies as well as the larger unlisted entities. Compliance by smaller companies is also encouraged.

88. Generally, current cost and inflation-adjusted information is not provided. The minority of companies that do present such information emphasize current cost depreciation and cost of goods sold with their effect on yearly earnings, as well as the effect of price-level changes on inventory and monetary working capital.

Other Matters of Importance

89. There is no requirement to disclose earnings per share figures, but most Swedish companies do so. A description of how the company defines the earnings per share figure is usually included because of varying computation methods.

90. Treasury stock is not assigned a value, and is carried on the balance sheet as a memorandum item. Total nominal or par value must be disclosed.

91. There is no requirement to separately disclose disposal of a segment of a business. If material, such disclosures are generally included as extraordinary items.

92. Swedish annual reports generally include historical surveys that give a summary of financial information covering a ten-year period.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

93. The equivalent of a U.S. corporation is the limited liability company, or “Aktiebolag” (AB), the most dominant form of business organized in Sweden. Legislation regarding ABs is addressed by the Companies Act.

94. Only Swedish citizens or Swedish legal entities may form an AB, unless special permission is granted by the Royal Board of Trade. The authorized share capital must exceed SEK 50,000 and all subscribed shares must be fully paid. A deed of formation including proposed bylaws, capital structure information, and other relevant facts is filed with the PRV and is available for public inspection.

95. As in the United States, the board of directors is the leading administrative body in a Swedish limited company and is appointed by the shareholders. A minimum of three board members is required for companies with capital in excess of SEK 1 million; otherwise, only one or two are necessary. Generally, the board members must be Swedish citizens, domiciled in Sweden. However, permission is usually granted to allow up to one-half of the directors to be non-Swedes. A chairman is appointed among the board members.

96. Companies with share capital in excess of SEK 1 million must also appoint a managing director to oversee daily operations.

The managing director may or may not be a board member but must be a Swedish citizen domiciled in Sweden. (This rule may also be waived in special situations.) Each company is required to maintain a share register, including names of owners of the shares, which is available for public inspection. The Securities Register Center, or “Vardepapperscentralen” (VPC), handles this task and the distribution of dividends for all listed companies and larger unlisted ones as well. Restricted shares may only be acquired by Swedish citizens; nonrestricted or free shares may be held by anyone.

97. Shares may also have different voting power. “A” shares generally have ten votes each, and “B” shares have one. Generally, nonrestricted shares are “B” shares, and because of their limited number, trade at higher prices.

98. The general meeting of shareholders must be held annually, within six months after year-end. Additionally, at the request of either a board member, auditor, or shareholder owning at least 10 percent of the shares, interim meetings may be held. Functions of the annual meeting include appointment of the board of directors and auditors, approving statutory accounts, deciding on distribution of profits, and determining whether management should be discharged from responsibility.

99. Shareholders of limited companies are only liable for the amount of equity invested. Shareholders have the right to sue a board member or the managing director if either has acted negligently in performance of his management function.

100. The Companies Act requires that a company allocate 10 percent of profit to a legal reserve until the amount in the reserve reaches 20 percent of share capital. Amounts paid in excess of par value of shares are also allocated to this reserve even if the 20-percent quota has been met.

101. The legal reserve may only be used to cover losses or for stock dividends. Other tax incentive reserves, as will be discussed later, must be included in the accounts in order to be tax deductible.

Branch of a Foreign Company

102. The Foreign Business Act of 1968 allows the establishment of a Swedish branch by a foreign company. Permission is generally granted three months after an application is filed. In

general, rules applicable to limited companies pertain to branches. A foreign company must provide the Royal Board of Trade with evidence that operations in its home country exist, including copies of bylaws and accounts. The title of the branch must include the word *branch* (“filial”) with the name of the foreign company and its country of domicile.

103. The branch must have a general manager who is a Swedish resident, but not necessarily a citizen. The general manager must hold an unrestricted power of attorney to represent the foreign company in all business and legal matters. It is the responsibility of the general manager to prepare and properly file an annual report that is audited by an AR.

104. Foreign companies wishing to establish operations in Sweden are not restricted to a branch form of organization. The corporate or partnership forms may also be chosen. Transfer of capital for the purpose of direct investment must have the approval of the Bank of Sweden (“Riksbank”). This approval is normally granted.

105. Foreign citizens or legal entities are prohibited from manufacturing war materials or carrying on mining activities. This rule also applies to Swedish companies that do not restrict foreign ownership of shares to 20 percent of total voting power. The acquisition of real estate is also restricted, unless the property is to be used for normal business operations or as a residence.

Partnership Entities

106. Two or more individuals or legal entities may form a partnership in order to carry on a trade or business. Partnerships are not common in Sweden because of the relatively low capital requirement needed for incorporation as a limited company. In general, Swedish partnerships are similar to those organized in the United States.

107. The basic partnership, a trading partnership or “handelsbolog,” is considered a legal but not taxable entity by Swedish law. All partners are jointly and severally liable for all debts of the partnership. All partners are free to act on behalf of the partnership. The partnership agreement determines the amount of capital investment, allocation of profit or loss, and responsibilities of partners.

108. A limited partnership (“kommanditbolag”) differs from a trading partnership in that one or more partner’s liability is limited to his share of invested capital. However, at least one partner must assume unlimited liability. Without special permission, a limited partner is prohibited from acting on behalf of the partnership.

109. A foreign individual or legal entity may be a partner with permission of the government. Approval from the Bank of Sweden is also required before transferring investment capital into the country. As discussed earlier, there are restrictions regarding activities of entities with foreign interests.

110. A register of partnerships is kept by the County Council.

Other Forms of Business Organization

Sole Proprietorships

111. An individual conducting a business is fully responsible for all debts of that business. A sole proprietorship whose gross sales normally exceed an amount determined under the National Insurance Act is obliged to comply with provisions of the Accounting Act, requiring accounts to be maintained in accordance with generally accepted accounting principles.

Cooperatives

112. Cooperative units (“ekonomisk forening”) are a dominant form of organization in agricultural, housing, and consumer areas and are regulated by the Act on Cooperative Associations. An audited annual report is required to be distributed to its members and may also be furnished to the public on request.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON STOCK EXCHANGES

Registration Requirements for Public Sale

113. Swedish commercial banks normally handle the sale of a company’s securities to the public. The banks determine what information is provided to the prospective purchaser. At present

there are no government regulations prescribing the contents of a prospectus. The validity of the information presented is the responsibility of the issuing company's board of directors.

Requirements for Listing Securities on the Stockholm Stock Exchange

114. The Stockholm Stock Exchange (the Exchange) is the only stock exchange in Sweden. Activity is regulated by legislation and by the Exchange's own rules. Presently, there are 164 companies listed, of which 127 are on the AI list and 37 are on the AII list. A share capital of at least SEK 10 million with at least 1,000 shareholders is required for an AI listing.

115. Applications for listing shares on the Exchange must be made in writing to the Council of the Exchange by a member of the Exchange or by the applicant company's management. The application includes detailed information concerning issue price, face value, and method of payment for shares. Companies listing stock must also submit their audited annual reports for the last five years. Debt security issuers need only submit information for the last two years, which is waived if the company already has a listing.

TAXES

Principal Types

116. The principal taxes in Sweden are corporation tax, capital gains tax, value added tax, and income tax. Other taxes include social insurance fees (social security tax), profit-sharing tax, and indirect taxes levied on various items such as property and gasoline.

117. In general, limited liability companies, cooperatives and branches of foreign entities are considered legal persons and are taxed at corporate rates. A partnership's income is allocated and taxable to each individual partner.

Corporate Taxes

118. Corporate taxes are only levied on a national level at a flat rate of 52 percent (for 1985). However, rules allow generous alloca-

tions to untaxed reserves. Consequently, a company usually pays only between 20 percent and 30 percent of income in taxes. Swedish corporations and branches resident in Sweden are taxed on worldwide income while nonresident companies are taxed on profits derived only from Swedish sources. A wide network of tax treaties, however, provides for a Swedish corporation to avoid double taxation of income derived from outside Sweden. Net operating losses may not be carried back, but may be carried forward for ten years following the year sustained.

119. Corporate profits, as in the United States, are subject to double taxation, first at the corporate level, and then as dividends to shareholders. Certain measures have been taken, however, to ease this burden somewhat. Since 1984, a general dividend deduction of 70 percent of dividends payable during the year is allowed for companies not listed on the stock exchange. However, the annual deduction may not exceed 15 percent of the capital stock or SEK 700,000. Companies holding 25 percent or more of the voting power of other companies are not taxed on the dividends received from that entity.

120. Holding companies with such interests require special consideration for the exemption to apply. In order for companies to acquire capital more easily, deductions are allowed for amounts paid for issues of new shares. This deduction is available for twenty years following the new issue, but in any tax year it may not exceed the dividends paid on the new shares or 10 percent of the amount of the issue.

Untaxed Reserves

121. Swedish tax law allows for corporations to set up reserves as a means of deferring taxes. These reserves are required to be included in the accounts to qualify for deduction, and are therefore considered to be generally accepted accounting principles.

122. Depreciation reserves represent the amount of depreciation claimed for tax purposes in excess of that claimed for book purposes. Depreciation methods and useful life estimates used for buildings and land improvements are similar to those followed in the United States. Methods used for machinery and equipment allow for such items to be written off over a period not exceeding

five years. Equipment of material value or economic life of three years or less may be written off in full in the year of purchase.

123. A company may set up a general investment reserve by allocating up to one half of its pre-tax profits for future capital expenditures; 75 percent of this amount must be deposited in an interest-free account in the Bank of Sweden. The use of these funds must be for qualifying purposes that require proper approval. Improper use of this reserve will result in the amount so used, plus 20 percent, becoming taxable.

124. Beginning in 1979, individuals operating a business may also allocate up to 50 percent of profits to a general investment reserve. These funds must be deposited in full in an interest-bearing account, and are subject to the same restrictions as corporations. If improperly used, such amounts plus a 30-percent penalty become taxable.

125. Inventory is permitted to be written down 5 percent (more if justifiable) for obsolescence. After such a write-down, 50 percent of the lower of cost (FIFO basis) or market is set aside in an untaxable reserve. Companies without large inventories are allowed to deduct 20 percent of wages and salary expenses for the year as a profit-adjustment reserve that becomes taxable the following year. Companies using this alternative may also reserve an amount for inventory, but only 35 percent of inventory.

Capital Gains

126. Gains from the nonbusiness sale of fixed or personal property are considered to be regular taxable income. Certain items like bonds, debt instruments, and other movable property are not taxed if held for more than five years.

127. Within the initial five-year holding period, the taxable amount is determined by a declining scale, one beginning with 100 percent in the first year and reaching zero in the fifth year. Generally, capital gains derived from the sale of shares are fully taxed if held for less than two years. Otherwise, only 40 percent of such gain is taxed along with the taxpayer's other taxable income.

128. Gains from the sale of real estate after adjustment for the effects of inflation are generally fully taxable. Capital losses may be

used to offset capital gains in the year incurred or in any of the six following years.

Value Added Tax

129. In accordance with the common European pattern, a value added tax (VAT), or sales tax is levied on almost all goods and services. The tax rate as of 1985 was 23.46 percent of the price of goods or services. The tax is levied on commercial sales within Sweden by producers, wholesalers, retailers, and on imports. Exports are not subject to VAT. Those subject to accountability must submit the amount due every two months.

Individual Taxes

130. Individuals pay income tax on worldwide income at both the national and the local levels. The national income tax is progressive and is divided into two parts—a basic amount and a supplementary amount. Income tax is calculated using tax tables, which are expressed in base units adjusted each year for inflation. The basic amount of income is taxed at a maximum rate of 20 percent for 1985. Any income exceeding sixteen base units is subject to the supplementary tax. For 1985 the rates ranged from 5 percent to 30 percent, and the tax was calculated using income before deductions for deficits in sources of income.

131. The local tax is a flat rate decided annually by local authorities. The tax consists of municipal, county, and church income taxes. These taxes are not deductible for national tax purposes.

Other Taxes

132. A wide array of indirect taxes are levied on property, gasoline, energy, motor vehicles, wines and spirits, and tobacco. In addition, social insurance fees are assessed on employers for employee benefits similar to Social Security in the United States. Self-employed taxpayers must pay their own share. For corporations, a profit-sharing tax at a rate of 20 percent of profits adjusted for inflation is payable to fund an investment program within the framework of the National Pension Insurance Fund System. Profits less than SEK 500,000 or 6 percent of payroll costs are exempt from the tax.

Tax Returns

133. Every company that has received taxable income for a fiscal year is required to file a tax return with the National Tax Board. All information required by a tax return form must be provided, whether the actual form is used or not. A parent company and its subsidiaries must file separately because consolidated returns are not permitted. A copy of the annual report must accompany the tax return. Individuals carrying on a business are obliged to include a copy of their balance sheet at the end of the last two years and a copy of the current year's income statement with their return. .

134. Incorrect or insufficient information included in a tax return is subject to a 40-percent penalty on the correct tax amount, and the individual responsible can be convicted of tax evasion.

135. Fiscal year-ends are April 30, June 30, August 31, or December 31. Other year-end dates are allowed with special permission. Individual and business income tax returns are due no later than February 15 following the fiscal year-end. Businesses with year-end dates after August 31 must file no later than March 31 of the following fiscal year.

136. Employers are obligated to withhold preliminary taxes when wages or salaries are paid to employees (Pay As You Earn system, or PAYE). In addition, all business entities are subject to estimated taxes, payable in six equal installments, every two months beginning with March of the income year. The amount actually due from each taxpayer is determined by tax assessment committees, located in about 120 local offices around Sweden.

137. If preliminary payments exceed taxes due, the taxpayer is granted a refund with interest. Any balance due by a taxpayer is payable in April following the assessment. If total actual taxes exceed preliminary taxes by SEK 700, monetary penalties will result.

APPENDIX A

Recommendations From the Swedish Institute of Authorized Public Accountants (FAR)

The following recommendations from FAR are now in force. (The titles below are translations.)

Accounting

- No. 1 *The Annual Report of Limited Companies*
 - No. 2 *Valuation of Inventories and Inventory Reserves*
 - No. 3 *Accounting for Fixed Assets*
 - No. 4 *Accounting for Pension Provisions and Pension Costs*
 - No. 5 *Accounting for Credits Granted on Current Account*
 - No. 6 *Accounting for Factoring*
 - No. 7 *Accounting for Leasing*
 - No. 8 *Accounting for Loans and Other Commitments to Persons With Close Relations to the Company*
 - No. 9 *Accounting for Pledged Assets*
 - No. 10 *Statements of Changes in Financial Position*
 - No. 11 *Concerning the Preparation of Consolidated Accounts*
 - No. 12 *Accounting for Shares and Participations*
- Receivables and Liabilities in Foreign Currency* (proposed recommendation)
- Accounting for Extraordinary Items* (proposed recommendation)

Auditing

- The Audit of Swedish Limited Companies*
- The Audit of Internal Control* (proposed recommendation)
- The Audit of Accounts Receivable*
- The Audit of Inventories*

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Joint Audits (proposed recommendation)

The Audit Report and the Endorsement of the Accounts

The Audit of Consolidated Accounts

Effects on the External Audit of Internal Auditing

Quality Control (proposed recommendation)

APPENDIX B

Standards of the BFN

The following is a list of standards issued by the BFN that are currently valid and their subjects. (The titles below are translations.)

<u>Number of Standard</u>	<u>Issue Date</u>	<u>Title</u>
3	3/14/77	<i>What Systems Documentation and Data Processing History Shall Be Filed When Using EDP in Accounting</i>
4	4/25/77	<i>When It Is Permitted to Use a Joint Voucher for Similar Transactions</i>
6	6/8/77	<i>Accounting Material—Definitions and Filing Instructions</i>
7	1/17/78	<i>The Acquisition Values of Machinery and Equipment</i>
9	6/9/78	<i>The Specification of Holdings of Shares and Participation Certificates</i>
10	6/7/78	<i>The Name of the Parent Company and Purchases and Sales Within the Same Group of Companies</i>
11	1/16/80	<i>Accounting for State Financial Aid</i>
12	7/23/80	<i>Accounting in Liquidation</i>
13	10/2/80	<i>How to Specify Certain Assets in the Profit and Loss Account and in the Balance Sheet</i>
14	12/8/80	<i>Accounting for Consumable Supplies</i>
15	4/15/81	<i>Ascertaining of Goods Bought and Sold in Wholesale Business-Type Cash and Carry</i>
16	7/20/81	<i>Accounting of Invoices</i>
17	11/1/82	<i>The Average Number of Employees in and the Wages, Salaries, and Other Remuneration During the Financial Year of Companies and Groups of Companies</i>
18	12/27/82	<i>Accounting for Costs Concerning Software for the Users of Computers</i>
19	3/8/83	<i>The Content of the Administration Report</i>
22	3/12/84	<i>Annual Reports Act</i>

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23	7/23/84	<i>Accounting for Financial Aid (Complement to No. 11)</i>
24	6/28/85	<i>Special Accounting Problems for House Owners</i>
25	11/1/85	<i>Accounting of Invoices (Complement to No. 16)</i>
26	11/1/85	<i>Accounting Material (Complement to No. 6)</i>
27	11/15/85	<i>The Acquisition Values of Machinery and Equipment (Complement to No. 7)</i>
28	11/15/85	<i>Accounting for Consumable Supplies (Complement to No. 14)</i>

APPENDIX C

Illustrative Auditors' Report and Financial Statements

The statements presented do not necessarily include all information that Swedish law requires.

We have examined the Annual Report of the Board of Directors and President, the Consolidated Financial Statements, the Accounts and the Administration of the Board of Directors and President for the year 1985. Our examination has been made in accordance with generally accepted auditing standards.

Parent Company

The Accounts have been prepared in conformity with the Swedish Companies Act.

We recommend—

- That the Statement of Income and the Balance Sheet be approved,
- That the earnings be disposed of as proposed in the Board of Directors' Report, and
- That the Board of Directors and the President be discharged from liability for their administration of the Company during the year 1985.

Group

The Consolidated Financial Statements have been prepared in conformity with the Swedish Companies Act.

We recommend that the Consolidated Statement of Income and the Consolidated Balance Sheet be approved.

Linköping, March 19, 1986.

Bengt Gunnhagen

Bo Lillieström-Tjus
Authorized Public Accountant

CONSOLIDATED STATEMENT OF INCOME

<u>SEK millions</u>	<u>1985</u>	<u>1984</u>
Operating revenue—Sales	31,840.2	25,955.7
Operating expenses—		
Manufacturing, selling and administrative expenses (Note 1)	-28,339.1	-22,636.9
Operating income before depreciation	3,501.1	3,318.8
Depreciation according to plan (Note 2)	-993.1	-845.6
Operating income after depreciation	2,508.0	2,473.2
Financial income and expenses—		
Dividends	32.8	28.4
Interest income (Note 3)	1,009.8	885.4
Interest expenses (Note 3)	-860.7	-927.9
Currency differences (Note 4)	70.9	63.0
Income after financial income and expenses	2,760.8	2,522.1
Extraordinary income and expenses (Note 5)	15.2	32.5
Income before appropria- tions and taxes (Note 6)	2,776.0	2,554.6
Appropriations (Note 7)	-1,540.8	-1,444.8
Income before taxes	1,235.2	1,109.8
Taxes (Note 8)	-587.4	-421.1
Income after taxes	647.8	688.7
Minority interest in subsidiaries' profit (Note 9)	-5.1	-6.6
Net income	<u>642.7</u>	<u>682.1</u>

Income per share, after full taxes, SEK (Note 10)	60.00	56.35
Income per share, after taxes paid, SEK (Note 10)	92.10	87.35
Pre-tax return on total assets	14.5%	16.4%
After-tax return on stockholders' equity	18.0%	20.5%

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

<u>SEK millions</u>		<u>1985</u>		<u>1984</u>
Assets				
Current assets				
Cash and banks	4,279.6		3,664.2	
Accounts receivable (Note 11)	4,835.7		4,348.4	
Prepaid expenses and accrued income	590.6		283.4	
Inventories (Note 12)	<u>7,789.3</u>	17,495.2	<u>7,391.6</u>	15,687.6
Blocked accounts with the Bank of Sweden (Note 13)				
		269.5		40.5
Obligations of the Kingdom of Denmark (Note 14)				
		126.7		152.2
Fixed assets				
Long-term receivables	309.6		414.2	
Shares and other securities (Note 15)	273.8		218.6	
Property, plant and equipment, etc. (Note 16)	<u>8,220.3</u>	<u>8,803.7</u>	<u>6,825.0</u>	<u>7,457.8</u>
Total assets		<u><u>26,695.1</u></u>		<u><u>23,338.1</u></u>
Liabilities and stockholders' equity				
Current liabilities				
Bank loans, etc. (Note 17)	1,486.6		1,290.2	
Accounts payable, etc. (Note 18)	2,901.8		2,780.3	
Accrued expenses and prepaid income	2,869.2		1,991.4	
Other current liabilities (Note 19)	<u>1,259.5</u>		<u>1,205.6</u>	
	<u>8,517.1</u>		<u>7,267.5</u>	
Advance payments from customers	<u>2,127.2</u>	10,644.3	<u>2,078.0</u>	9,345.5
Bond loans secured by the Kingdom of Denmark (Note 14)				
		125.0		150.0
Long-term liabilities				
Long-term loans (Note 20)	1,694.7		1,733.1	

Provision for pensions (Note 21)	1,782.8		1,612.1	
Provision for vehicle damage guarantee (Note 22)	<u>80.6</u>	3,558.1	<u>68.0</u>	3,413.2
Untaxed reserves (Note 23)		8,020.7		6,488.5
Minority interest in stock- holders' equity of sub- sidiaries (Note 9)		37.1		35.8
Stockholders' equity (Note 24)				
Restricted stockholders' equity				
Capital stock				
24,247,926 common shares, par value SEK 50	1,212.4		1,212.4	
120,000 preferred shares, par value SEK 50	6.0		6.0	
Statutory reserves	<u>1,179.1</u>		<u>1,131.1</u>	
	<u>2,397.5</u>		<u>2,349.5</u>	
Unrestricted stock- holders' equity	1,269.7		873.5	
Unappropriated earnings	<u>642.7</u>		<u>682.1</u>	
Net income	<u>1,912.4</u>	<u>4,309.9</u>	<u>1,555.6</u>	<u>3,905.1</u>
Total liabilities and stock- holders' equity		<u>26,695.1</u>		<u>23,338.1</u>
Assets pledged (Note 25)		2,840.0		2,905.0
Contingent liabilities (Note 26)		849.9		1,045.7

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION

<u>SEK millions</u>	<u>1985</u>		<u>1984</u>	
Source of funds				
Internal source of funds				
Income before appropriations and taxes	2,776.0		2,554.5	
Depreciation charged to income	1,159.5		966.8	
Change in blocked accounts with the Bank of Sweden	-229.0		-8.3	
Taxes	-587.4		-421.1	
Dividend to stockholders	-242.8		-242.8	
Minority interest in subsidiaries' net income	<u>-5.1</u>	2,871.2	<u>-6.6</u>	2,842.5
Change in working capital (excluding cash and bank accounts)				
Increase in current receivables	-794.5		-482.5	
Increase in inventories	-397.7		-1,452.8	
Increase in bank loans, etc.	196.4		42.7	
Increase in advance payments from customers	49.2		222.5	
Increase in other current liabilities	<u>1,053.2</u>	<u>106.6</u>	<u>1,267.5</u>	<u>-402.6</u>
		2,977.8		2,439.9
External source of funds				
Increase in provision for pensions	170.7		193.5	
Decrease in long-term receivables	104.6		—	
Increase in provision for vehicle damage guarantee	12.6		8.2	
Increase in minority interests in stockholders' equity	1.3		6.0	
Sale of bonus shares, not withdrawn	0.9		—	

Decrease in obligations of the Kingdom of Denmark, net	0.5		0.6	
Decrease in advance payments	—	<u>290.6</u>	<u>245.1</u>	<u>453.4</u>
Total source of funds		<u>3,268.4</u>		<u>2,893.3</u>
Use of funds				
Net investments in property, plant and equipment, etc.	2,532.0		2,600.4	
Net investments in shares, etc.	55.2		46.9	
Decrease in long-term loans	38.4		12.5	
Increase in advance payments	27.4		—	
Increase in long-term receivables	—	<u>2,653.0</u>	<u>6.4</u>	<u>2,666.2</u>
Increase in cash and banks		<u><u>615.4</u></u>		<u><u>227.1</u></u>

PARENT COMPANY STATEMENT OF INCOME

<u>SEK millions</u>	<u>1985</u>	<u>1984</u>
Operating revenue		
Sales	17,582.5	14,420.1
Operating expenses		
Manufacturing, selling and administrative expenses (Note 1)	-15,332.1	-12,352.8
Operating income before depreciation	2,250.4	2,067.3
Depreciation according to plan (Note 2)	<u>-601.3</u>	<u>-487.5</u>
Operating income after depreciation	1,649.1	1,579.8
Financial income and expenses		
Dividends from subsidiaries	226.0	198.1
Dividends from other companies	30.7	23.2
Interest income (Note 3)	423.2	414.5
Interest expenses (Note 3)	-433.4	-420.2
Currency differences (Note 4)	<u>43.6</u>	<u>-76.2</u>
Income after financial income and expenses	1,939.2	1,719.2
Extraordinary income and expenses (Note 5)	<u>0.9</u>	<u>11.3</u>
Income before appropri- ations and taxes (Note 6)	1,940.1	1,730.5
Appropriations (Note 7)	<u>-1,188.7</u>	<u>-1,159.0</u>
Income before taxes	751.4	571.5
Taxes (Note 8)	<u>-246.0</u>	<u>-150.0</u>
Net income	<u><u>505.4</u></u>	<u><u>421.5</u></u>

The accompanying notes are an integral part of these financial statements.

PARENT COMPANY BALANCE SHEET

<u>SEK millions</u>	<u>1985</u>		<u>1984</u>	
Assets				
Current assets				
Cash and banks	3,141.2		2,694.8	
Accounts receivable, subsidiaries	1,994.0		1,650.4	
Accounts receivable (Note 11)	1,157.3		1,081.6	
Prepaid expenses and accrued income	473.7		172.3	
Inventories (Note 12)	<u>3,841.1</u>	10,607.3	<u>3,524.8</u>	9,123.9
Blocked accounts with the Bank of Sweden (Note 13)		183.3		7.3
Obligations of the Kingdom of Denmark (Note 14)		126.7		152.2
Fixed assets				
Long-term receivables, subsidiaries	157.3		169.7	
Long-term receivables, other companies	77.8		287.1	
Shares and participations, subsidiaries (Note 15)	1,257.4		1,211.8	
Shares and participations, other companies (Note 15)	155.1		155.1	
Property, plant and equip- ment, etc. (Note 16)	<u>5,307.2</u>	<u>6,954.8</u>	<u>4,486.2</u>	<u>6,309.9</u>
Total assets		<u><u>17,872.1</u></u>		<u><u>15,593.3</u></u>
Liabilities and stockholders' equity				
Current liabilities				
Bank loans, etc. (Note 17)	416.0		439.0	
Accounts payable to suppliers (Note 18)	1,494.6		1,408.6	
Accounts payable to subsidiaries	703.0		645.1	
Accrued expenses and prepaid income	1,693.4		1,138.9	
Other current liabilities (Note 19)	478.4		502.4	
	<u>4,785.4</u>		<u>4,134.0</u>	

(Continued on next page.)

PARENT COMPANY BALANCE SHEET (cont.)

Advance payments from customers	<u>1,171.9</u>	5,957.3	<u>1,160.2</u>	5,294.2
Bond loans secured by the Kingdom of Denmark (Note 14)		125.0		150.0
Long-term liabilities				
Loans from subsidiaries	276.6		34.3	
Other long-term loans (Note 20)	972.0		1,113.6	
Provision for pensions (Note 21)	1,098.4		980.7	
Provision for vehicle damage guarantee (Note 22)	<u>15.5</u>	2,362.5	<u>38.0</u>	2,166.6
Untaxed reserves (Note 23)		6,497.1		5,315.8
Stockholders' equity (Note 24)				
Restricted stockholders' equity				
Capital stock				
24,247,926 common shares, par value SEK 50	1,212.4		1,212.4	
120,000 preferred shares, par value SEK 50	6.0		6.0	
Legal reserve	<u>567.9</u>		<u>567.0</u>	
	<u>1,786.3</u>		<u>1,785.4</u>	
Unrestricted stockholders' equity				
Unappropriated earnings	638.5		459.8	
Net income	<u>505.4</u>		<u>421.5</u>	
	<u>1,143.9</u>	<u>2,930.2</u>	<u>881.3</u>	<u>2,666.7</u>
Total liabilities and stockholders' equity		<u>17,872.1</u>		<u>15,593.3</u>
Assets pledged (Note 25)		2,193.6		2,279.3
Contingent liabilities (Note 26)		1,020.7		1,002.0

The accompanying notes are an integral part of these financial statements.

PARENT COMPANY STATEMENT OF CHANGES
IN FINANCIAL POSITION

<u>SEK millions</u>	<u>1985</u>	<u>1984</u>
Source of funds		
Internal source of funds		
Income before appropriations and taxes	1,940.1	1,730.5
Depreciation charged to income	766.0	607.0
Change in blocked account with the Bank of Sweden	-176.0	22.4
Taxes	-246.0	-150.0
Dividend to stockholders	-242.8	-242.8
Group contribution received	—	79.7
	<u>2,041.3</u>	<u>2,046.8</u>
Change in working capital (excluding cash and bank accounts)		
Increase in current receivables	-720.7	-525.6
Increase in inventories	-316.3	-687.8
Increase (+), decrease (-) in advance payments from customers	11.7	-103.0
Decrease (-), increase (+) in bank loans, etc.	-23.0	60.5
Increase in other current liabilities	674.4	745.3
	<u>-373.9</u>	<u>-510.6</u>
	1,667.4	1,536.2
External source of funds		
Decrease in long-term receivables from others	209.3	245.4
Decrease in long-term receivables from subsidiaries	12.4	28.2
Increase in loans from subsidiaries	242.3	12.3
Increase in provision for pensions	117.7	118.1
Sale of bonus shares, not withdrawn	0.9	—

(Continued on next page.)

PARENT COMPANY STATEMENT OF CHANGES
IN FINANCIAL POSITION (cont.)

Decrease in obligations of the Kingdom of Denmark, net	<u>0.5</u>	<u>583.1</u>	<u>0.6</u>	<u>404.6</u>
Total source of funds		2,250.5		1,940.8
Use of funds				
Net investments in property, plant and equipment, etc.	1,568.9		1,775.0	
Net investments in shares in subsidiaries	45.6		125.0	
Net investments in shares in other companies	—		35.6	
Decrease in other long-term loans	141.6		85.1	
Increase in advance payment	25.5		—	
Decrease in provision for vehicle damage guarantee	22.5		7.0	
Increase in long-term receivables from other companies	—		14.8	
Untaxed reserves transferred to subsidiaries	<u>—</u>	<u>1,804.1</u>	<u>17.5</u>	<u>2,060.0</u>
Increase (+), decrease (-) in cash and banks		<u>446.4</u>		<u>-119.2</u>

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Principles of Consolidation

The consolidated accounts include the Parent Company and all companies in Sweden and abroad in which the Parent Company directly or indirectly owns more than 50 percent of the shares. Adjusted income per share includes the Saab-Scania Group's equity in the earnings of associated companies. Such companies are defined as companies in which the Group holds an interest of between 25 and 50 percent.

As in previous years, the consolidated statements have been prepared in accordance with the purchase method, which means that the acquisition cost of shares in subsidiaries has been eliminated against stockholders' equity (including part of the untaxed reserves) of the subsidiaries on the date these were acquired. Accordingly, the Saab-Scania Group's stockholders' equity includes only that portion of the subsidiaries' equity which has arisen after the acquisition date. Differences between the cost of acquiring shares in subsidiaries and the subsidiaries' equity on the acquisition date have, after analysis, mainly been accounted for as adjustments of the subsidiaries' assets and liabilities, and as goodwill. The values of the fixed assets and goodwill, thus adjusted, are then written off, with the amounts of write-off charged against the Group's operating income.

Companies acquired during the year have been included in the consolidated income statement at values related to the post-acquisition period.

Internal Group transactions and profits have been eliminated.

Prices of intra-Group supplies of goods are determined by applying commercial principles and market prices.

Minority stockholders' share of stockholders' equity is shown as minority interest.

Foreign Subsidiaries

The financial statements of foreign subsidiaries have been translated to Swedish kronor (SEK) in conformity with the International Accounting Standard No. 21 (IAS 21). According to those standards, financial statements of subsidiaries with operations that are an integral part of the operations of the parent company are translated by using the temporal method and other subsidiaries by using the current rate method. Financial statements of subsidiaries in countries with a considerably high rate of inflation are also translated by use of the temporal method. When the temporal method is used monetary items are translated at the closing rate and non-monetary items at acquisition-date rates. Thus, inventories, property, plant and equipment and stockholders' equity are translated at acquisition-date rates, while other assets and liabilities are translated at year-end rates. With the exception of cost of goods sold and depreciation on property, plant and equipment, which are translated at acquisition-

date rates, income and expenses have been translated at average exchange rates during the year. Gains and losses from foreign exchange (translation differences) on monetary items in the balance sheets of foreign subsidiaries are included in income and shown in the income statement under the heading "Currency differences."

When the current rate method is used assets and liabilities are translated at the year-end rate and income statement items are translated at average exchange rates during the year. The exchange differences resulting from translating the opening net investment in the foreign entity at an exchange rate different from the closing rate is taken to stockholders' equity.

Exchange Rates

<u>Country</u>	<u>Currency</u>	<u>Rate, December 31</u>	
		<u>1985</u>	<u>1984</u>
Argentina	ARP 1,000	9.50	50.28
Australia	AUD 1	5.19	7.39
Austria	ATS 100	43.89	40.61
Belgium	BEC 100	15.10	14.23
Brazil	BRC 100	0.07	0.28
Denmark	DKK 100	84.60	79.65
Finland	FIM 100	140.10	137.25
France	FRF 100	100.55	93.05
The Netherlands	NLG 100	273.80	252.60
Norway	NOK 100	100.30	98.70
Switzerland	CHF 100	366.40	346.30
United Kingdom	GBP 1	10.97	10.45
United States	USD 1	7.61	8.99
West Germany	DEM 100	308.50	285.25

Receivables and Liabilities in Foreign Currency

Receivables and liabilities in foreign currency held by individual companies have been accounted for in accordance with the principle of lowest and highest value, respectively. Thus, receivables have been accounted for at the lower and liabilities at the higher of two rates in effect: when the receivable/liability arose and the rate in effect at year-end. This means that exchange gains are not included in income until they have been realized, while exchange losses, with the exception of such losses which are attributable to long-term loans raised by the Parent Company, are charged to income even if they have not been realized. However, certain setoffs have been made between exchange gains and exchange losses.

Unrealized exchange losses on long-term loans of the Parent Company have been distributed over the remaining terms of these loans. The portion of unrealized exchange losses accruing in coming years is included with long-term receivables.

Exchange differences relating to short- and long-term borrowings are included in the income statement under the heading “Currency differences,” while other exchange differences are included in operating income.

Inventories

Inventories have been valued at the lower of cost, according to the first-in, first-out principle (FIFO), or market value. Adequate provision has been made for obsolescence.

Depreciation

The following depreciation concepts are applied in Group accounting: *Depreciation according to plan* is based on the historical costs of fixed assets and their estimated service lives. The rates of depreciation on machinery and equipment vary from 6.7 to 20 percent; for industrial buildings the rate is 4 percent.

Book depreciation is calculated in accordance with the applicable laws and practices in the respective countries.

Depreciation in excess of plan represents the difference between depreciation according to plan and book depreciation.

Calculated depreciation is based on the estimated replacement costs and service lives of the related assets.

Research and Development Costs

The definition of costs for research and development conforms with that used by the Swedish Central Bureau of Statistics.

Only costs directly related to the development of a few new projects, which are significant for the operations of the Group, are capitalized. Such capitalized costs are depreciated annually by at least 20 percent.

Appropriations and Untaxed Reserves

Tax legislation in Sweden and in certain other countries permits allocations to be made to reserves of various types. In that way companies can, within specified limits, retain earnings in the business without subjecting them to immediate taxation.

The year's allocations to, and transfers from, these reserves are shown in the income statement under the heading “Appropriations.” The aggregate value of such provisions is included with untaxed reserves in the balance sheet.

Untaxed reserves are not subject to taxation until they are utilized. However, in the event that operations prove to be unprofitable, untaxed reserves can be utilized to cover such losses without incurring a liability to pay tax.

OECD's guidelines

In all significant respects the Saab-Scania Group follows the recommendations on the disclosure of information issued by the Organization for Economic Cooperation and Development (OECD) in its declaration entitled "Guidelines on International Investments and Multinational Enterprises."

Definitions of Key Ratios

Full taxes. These are the taxes paid plus taxes, 52 percent on the year's appropriations less minority interest.

Income per share—after full taxes. This is income before extraordinary income and expenses plus Saab-Scania's share of the earnings of associated companies over and above dividends received, less minority interest, full taxes and dividends on preferred shares, divided by the number of shares outstanding at the end of the year.

Income per share—after taxes paid. This is income before extraordinary income and expenses plus Saab-Scania's share of the earnings of associated companies over and above dividends received, less minority interest, taxes paid and dividends on preferred shares, divided by the number of shares outstanding at the end of the year.

Pre-tax return on total assets. This is income after depreciation according to plan increased by financial income as a percentage of average total assets according to the balance sheet.

Calculation of the rate of return for the various operating sectors is based on each sector's share of the above-mentioned income and assets. Some items of income and expenses relating to activities that are common to the Group—management, central financing and administration—as well as assets employed for these functions, are not allocated by operating sectors.

After-tax return on stockholders' equity. This is income before extraordinary income and expenses, less minority interest and full taxes as a percentage of adjusted average stockholders' equity. Adjusted average stockholders' equity consists of reported stockholders' equity plus 48 percent of untaxed reserves minus minority interest.

Solvency. This is reported stockholders' equity, including untaxed reserves, as a percentage of total assets, after deductions for advance payments from customers and bond loans secured by the Kingdom of Denmark.

Advance payments from customers which are mainly related to military orders should not be considered as liabilities in this connection. There is no question of repayment of these advances; settlement will be effected through current deliveries. The advances correspond mainly to work in progress, which is included in inventory.

Interest coverage. This is income after depreciation according to plan plus financial income in relation to financial expenses.

NOTES TO FINANCIAL STATEMENTS

1 Operating Expenses

Expenses for research and development amounted to SEK 2,528 m. (1,905) for the Group and SEK 2,186 m. (1,666) for the Parent Company.

2 Depreciation

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Depreciation according to plan				
Machinery and equipment	885.1	751.7	531.4	428.6
Buildings	100.5	87.4	65.6	55.2
Land and other real estate	7.5	6.5	4.3	3.7
Total	<u>993.1</u>	<u>845.6</u>	<u>601.3</u>	<u>487.5</u>

Consolidated calculated depreciation amounted to SEK 1,398 m. (1,216).

Definitions of the depreciation principles applied appear in the section "Accounting Principles."

3 Interest

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Interest earned				
From subsidiaries	—	—	35.8	16.9
From other companies	1,009.8	885.4	387.4	397.6
Total	<u>1,009.8</u>	<u>885.4</u>	<u>423.2</u>	<u>414.5</u>
Interest paid				
To subsidiaries	—	—	95.4	97.8
To other companies	668.8	753.6	215.3	213.8
Interest on pension debt	191.9	174.3	122.7	108.6
Total	<u>860.7</u>	<u>927.9</u>	<u>433.4</u>	<u>420.2</u>

4 Currency Differences

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Exchange differences on short- and long-term borrowings	35.5	-83.3	43.6	-76.2
Translation differences	35.4	146.3	—	—
Total	<u>70.9</u>	<u>63.0</u>	<u>43.6</u>	<u>-76.2</u>

The positive translation differences last year were primarily related to the subsidiaries in Brazil and Argentina. During 1985 the translation differences referring to these subsidiaries were much lower, owing to changes in the companies' monetary net capital. The translation differences, in countries with high rates of inflation, should be treated as a correction item pertaining to the high nominal rates of interest in these countries.

5 Extraordinary Income and Expenses

SEK millions	Group		Parent Company	
	1985	1984	1985	1984
Extraordinary income				
Capital gain on sale of:				
Buildings	6.8	17.5	0.2	11.4
Land and other real estate	1.0	5.6	—	—
Shares	7.4	10.6	0.7	—
Subtotal	<u>15.2</u>	<u>33.7</u>	<u>0.9</u>	<u>11.4</u>
Extraordinary expenses				
New share issue costs	—	-1.2	—	—
Loss on sale of:				
Land and other real estate	—	—	—	-0.1
Subtotal	<u>—</u>	<u>-1.2</u>	<u>—</u>	<u>-0.1</u>
Total	<u>15.2</u>	<u>32.5</u>	<u>0.9</u>	<u>11.3</u>

6 Income Before Appropriations and Taxes

SEK millions	Group		Parent Company	
	1985	1984	1985	1984
Scania Division	1,797.8	1,495.3	1,379.8	1,146.8
Saab Car Division	821.4	934.9	566.6	600.0
Saab Aircraft Division	106.4	133.3	100.2	134.9
Saab-Scania Combitech	194.4	116.7	—	—
Saab-Scania Eneritech	0.1	41.1	—	—
Others	-144.1	-166.7	-106.5	-151.2
Total	<u>2,776.0</u>	<u>2,554.6</u>	<u>1,940.1</u>	<u>1,730.5</u>

Consolidated income before appropriations and taxes, excluding minority interest and including the Group's share in the corresponding income of associated companies, amounted to SEK 2,817.4 m. (2,572.1).

7 Appropriations

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Depreciation in excess of plan	31.1	-377.7	116.3	-277.7
Transfer to:				
general investment reserve	-1,069.7	-693.5	-900.0	-595.0
inventory reserve	-273.6	-24.0	-158.0	-63.0
statutory renewal reserve	-214.8	—	-178.0	—
reserve for contingency	-13.8	—	—	—
statutory investment reserve	—	-349.6	—	-283.0
internal profit reserve	—	—	-69.0	-20.0
Group contribution received	—	—	—	79.7
Total	<u>-1,540.8</u>	<u>-1,444.8</u>	<u>-1,188.7</u>	<u>-1,159.0</u>
Depreciation in excess of plan				
Depreciation according to plan	993.1	845.6	601.3	487.5
Book depreciation	-1,811.6	-1,779.7	-1,260.2	-1,205.7
Difference between depreciation according to plan and book depreciation	<u>-818.5</u>	<u>-934.1</u>	<u>-658.9</u>	<u>-718.2</u>
Of which, transfers from investment and similar reserves for depreciation of plant	698.6	684.6	627.5	570.7
expense write-offs	159.9	—	158.9	—
Accumulated excess depreciation on sold plants	2.3	2.5	—	0.5
Excess depreciation on capitalized product development	<u>-11.2</u>	<u>-130.7</u>	<u>-11.2</u>	<u>-130.7</u>
Depreciation in excess of plan	<u>31.1</u>	<u>-377.7</u>	<u>116.3</u>	<u>-277.7</u>

8 Taxes

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Income tax	534.5	391.9	217.0	137.0
Profit-sharing tax	34.9	0.1	19.0	—
Withholding tax on dividends	18.0	8.9	10.0	—
Temporary profit tax	—	20.2	—	13.0
Total	<u>587.4</u>	<u>421.1</u>	<u>246.0</u>	<u>150.0</u>

9 Minority Interest in Subsidiaries

The minority interest in equity and income relates primarily to outside shareholdings in V.A.G. Sverige AB.

10 Adjusted Net Income and Income Per Share

Adjusted net income and income per share, full tax

<u>SEK millions</u>	<u>1985</u>	<u>1984</u>
Income before extraordinary income and expenses less minority interest	2,709.1	2,479.0
Add: Saab-Scania Group's share in corresponding income of associated companies	139.1	88.4
Less: Dividends from associated companies	-30.8	-27.8
Pre-tax income	<u>2,817.4</u>	<u>2,539.6</u>
Full tax*	-1,362.5	-1,172.4
Dividends on preferred shares	-0.3	-0.3
Adjusted net income, after full taxes	<u>1,454.6</u>	<u>1,366.9</u>
Income per share, SEK	60.00	56.35
Income per share, taxes paid:		
Pre-tax income, as above	2,817.4	2,539.6
Taxes paid*	-583.3	-421.1
Dividends on preferred shares	-0.3	-0.3
Net income, after taxes paid	<u>2,233.8</u>	<u>2,118.2</u>
Income per share, SEK	92.10	87.35

*See "Accounting Principles."

Major associated companies were Oy Saab-Valmet Ab (50%), Oy Scan-Auto Ab (50%), Saab-Scania Finans AB (40%) and Saab-Ana Finans AB (40%). For companies with non-calendar fiscal years, earnings for latest full fiscal year are used. Sometimes the available accounts are preliminary.

11 Accounts Receivable

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Notes receivable	655.3	573.3	87.3	85.3
Accounts receivable				
installment contracts	546.4	605.6	2.5	2.1
other	2,906.8	2,482.8	641.2	609.2
Other receivables*	621.0	574.2	379.8	336.9
Advance payments to suppliers	106.2	112.5	46.5	48.1
Total	<u>4,835.7</u>	<u>4,348.4</u>	<u>1,157.3</u>	<u>1,081.6</u>

*These accounts contain funds that in accordance with Swedish law from 1984 concerning liquidity deposits with the Bank of Sweden amounted to SEK 149.8 m. for the Group and SEK 131.7 m. for the Parent Company. These deposits are to be withdrawn on December 30, 1986.

Provision has been made for doubtful receivables. In addition, certain foreign receivables of the Parent Company have been written down further. These write-downs, which were deductible for tax purposes, are subject to tax to the extent they are recovered.

12 Inventories

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Raw materials, intermediates and work in progress	3,452.9	3,879.4	2,894.8	2,559.2
Finished goods	4,336.4	3,512.2	946.3	965.6
Total	<u>7,789.3</u>	<u>7,391.6</u>	<u>3,841.1</u>	<u>3,524.8</u>

13 Blocked Account With the Bank of Sweden

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
For investment reserve	237.9	34.0	183.3	7.3
For statutory investment reserve	31.6	6.5	—	—
Total	<u>269.5</u>	<u>40.5</u>	<u>183.3</u>	<u>7.3</u>

14 Obligations of the Kingdom of Denmark

In connection with the delivery of aircraft to the Danish Air Force, Saab-Scania raised bond loans in Sweden, the proceeds of which were transferred to Denmark on identical terms. The resulting obligations of the Kingdom of Denmark are guaranteed up to 90 percent by the Swedish Export Credit Guarantee Board (a government agency).

The following bond loans have been raised:

<u>Date</u>	<u>SEK millions</u>	<u>Interest rate</u>	<u>Debt as of Dec. 31, 1985</u>
1968-09-27	50.0	6.25%	15.0
1969-06-18	50.0	7.00%	20.0
1970-03-12	50.0	7.50%	25.0
1971-03-10	50.0	7.50%	30.0
1972-07-10	50.0	7.25%	35.0
Total			<u>125.0</u>

All loans are free of amortization for ten years from the date of issue, following which they are to be amortized over the next 10-year period.

15 Shares and Participations

SEK millions	Group		Parent Company	
	1985	1984	1985	1984
Shares and participations in subsidiaries	—	—	1,257.4	1,211.8
in other companies	233.5	164.6	155.1	155.1
Bonds and other securities	40.3	54.0	—	—
Total	<u>273.8</u>	<u>218.6</u>	<u>1,412.5</u>	<u>1,366.9</u>

Parent Company and Group holdings of shares and participations on December 31, 1985

Parent Company	Number, thousands	Par value, millions	Book value, SEK m.
Subsidiaries			
<i>Manufacturing companies</i>			
Saab-Scania do Brasil S.A.	132,775,900	BRC 132,775.9	197.9
Scania Nederland B.V.	1,080	NLG 108.0	139.1
Saab-Scania Combitech AB	600	60.0	60.0
Saab-Scania Eneritech AB	1600	80.0	52.6
Scania-Bussar AB	250	25.0	25.0
Grip-Kaross AB	50	5.0	5.0
Saab-Scania Argentina S.A.	2,845,580	ARP 2,845.6	0
<i>Marketing companies</i>			
Saab-Scania Holdings Corp. (USA)	1	—	144.6
SAAB-ANA AB	120	120.0	120.0
Bil & Buss Förvaltnings AB	600	60.0	83.0
Saab (Great Britain) Ltd.	6,000	GBP 6.0	54.2
Saab Deutschland GmbH	—	DEM 16.0	33.4
Scania (Great Britain) Ltd.	5,000	GBP 5.0	29.6
Saab-Scania Australia Pty. Ltd.	6,000	AUD 6.0	28.4
V.A.G. Sverige AB, 67%	560	56.0	28.0
Saab Norge A/S	30	NOK 30.0	24.9
Scania Nutzfahrzeuge Ges.mbH (Austria)	85	ATS 85.0	22.7
Scania Vehiculos S.A. (Spain)	345	ESP 345.0	20.9
Scania-Bilar i Malmö AB	16	16.0	14.9
Scania-Bilar i Göteborg AB	150	15.0	14.0
Saab France S.A.	150	FRF 15.0	13.9
Scania-Bilar i Stockholm AB	100	10.0	11.7
Linköpings Motorcentrum AB	10	10.0	11.0
Saab Aircraft Product Support AB	100	10.0	10.0
Scania-Bilar i Helsingborg AB	40	10.0	8.5
Saab-Biler A/S (Denmark)	1	DKK 12.0	8.5

Scania-Bilar A/S (Denmark)	19	DKK 19.0	7.8
Kristianstads Bilcentrum AB	75	7.5	7.5
Scania-Bilar i Örebro AB	80	8.0	7.3
Scania-Bilar i Södertälje AB	6	6.0	6.3
Scania-Vabis del Peru S.A.	3,752	PES 3,752	0
<i>Other subsidiary companies</i>			
Saab Aircraft Finance Corp.	1	USD 1.0	25.7
Saab-Scania Reinsurance Company, Försäkring- saktiebolag	100	10.0	10.0
AB Gångaren	93	9.3	9.3
AB Tönseth & Co.	13	6.7	6.7
Södertälje Bilkredit AB	65	6.5	5.1
AB Dure	12	1.2	1.2
AB Nordisk Datakraft	11	1.1	1.1
Saab Helikopter AB	10	1.0	1.0
Other subsidiaries	—	—	6.6
Shares in subsidiaries, book value			<u>1,257.4</u>

Other companies*Associated companies*

Oy Scan-Auto Ab, 50% (Finland)	350	FIM 35.0	56.2
Oy Saab-Valmet Ab, 50% (Finland)	32	FIM 31.6	37.4
Saab-Ana Finans AB, 40%	80	8.0	8.0
Saab-Scania Finans AB, 40%	105	10.5	4.2
Scancars AG, 25% (Switzerland)	1	CHF 0.7	2.1
Other associated companies			0.1
			<u>108.0</u>

Other companies*Miscellaneous*

Svensk Interkontinental Lufttrafik AB, 8%	280	14.0	36.9
Oy Suomen Autoteollisuus Ab, 7% (Finland)	450	FIM 4.5	6.3
Tanzania Automobile Manufac- turing, Ltd.	3	TZS 2.6	1.5
Industrigruppen JAS AB, 20%	10	1.0	1.0
Malmfältens Finans AB	10	1.0	1.0
Other shares and participations	—	—	0.4
Shares in other companies, book value			<u>155.1</u>

Group	<u>Number, thousands</u>	<u>Par value, millions</u>	<u>Book value, SEK m.</u>
Shares in other companies			
Parent Company, as above	—	—	155.1
Beers' Zonen N.V., 49% (The Netherlands)	273	NLG 5.5	53.8
Brazilian development companies, etc.	—	BRC 11,861.5	8.4
European Silicon Structures S.A., 2% (Belgium)	6	BEC 0.6	3.0
Saab-Scania Finance Ltd, 49% (U.K.)	294	GBP 0.3	1.4
Macro-Tech Teknikcentrum, 50%	—	1.0	1.0
Saab Bofors Missile Corp AB, 50%	5	0.5	0.5
Other shares and participations	—	—	10.3
Shares in other companies, book value			<u>233.5</u>

During the year the shares in Oy Scan-Auto Ab have been revalued by SEK 16.5 m. and a corresponding write-down has been made of the value of the shares in Oy Suomen Autoteollisuus Ab. The revaluation has been made within the company's accounted restricted equity. In accordance with Swedish law a detailed specification has been included in the Annual Report filed with the Swedish Patent and Registration Office. This specification may be acquired from the Parent Company head office in Linköping. Saab-Scania's share of stockholders' equity and 52 percent of untaxed reserves of associated companies was SEK 447.7 m. (322.1), compared with a total book value for the shares of SEK 170.7 m. (129.3).

16 Property, Plant and Equipment, etc.

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Goodwill arising from acquisitions*	29.0	12.5	—	—
Capitalized product development cost	640.7	629.5	640.7	629.5
Advance payments to suppliers	62.3	34.9	59.8	34.3
Construction in progress	259.3	86.9	200.3	69.3
Machinery and equipment	5,006.3	4,093.3	3,056.3	2,554.4
Buildings	1,843.5	1,620.4	1,149.9	1,012.5
Land and other real estate	379.2	347.5	200.2	186.2
Total	<u>8,220.3</u>	<u>6,825.0</u>	<u>5,307.2</u>	<u>4,486.2</u>

*Goodwill is depreciated according to plan at rates which are individually determined for each goodwill item. The depreciation, which is included in operating income, amounted to SEK 1.7 m. (1.5) or, on average, 15 percent of the Group's acquisition value for goodwill.

Capitalized product development cost

<u>SEK millions</u>	<u>1985</u>	<u>1984</u>
Cost	1,030.0	854.1
Less: Accumulated depreciation according to plan*	<u>-389.3</u>	<u>-224.6</u>
Value as shown on assets side of balance sheet	640.7	629.5
Less: Accumulated excess depreciation	<u>-640.7</u>	<u>-629.5</u>
Net book value	<u><u>0</u></u>	<u><u>0</u></u>

*These investments are written off at a rate of 20 percent annually and are included in operating income. The depreciation amounted to SEK 164.7 m. (119.7) for the Group as well as the Parent Company.

Machinery and Equipment

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Cost	9,039.5	7,580.0	5,683.1	4,836.4
Less: Accumulated depreciation according to plan	<u>-4,033.2</u>	<u>-3,486.7</u>	<u>-2,626.8</u>	<u>-2,282.0</u>
Value as shown on the assets side of the balance sheet	5,006.3	4,093.3	3,056.3	2,554.4
Less: Accumulated excess depreciation	<u>-2,289.3</u>	<u>-1,764.0</u>	<u>-1,569.8</u>	<u>-1,168.7</u>
Net book value	<u><u>2,717.0</u></u>	<u><u>2,329.3</u></u>	<u><u>1,486.5</u></u>	<u><u>1,385.7</u></u>

Buildings

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Cost	2,648.6	2,336.6	1,643.8	1,434.0
Less: Accumulated depreciation according to plan	<u>-928.6</u>	<u>-843.8</u>	<u>-588.7</u>	<u>-523.3</u>
	1,720.0	1,492.8	1,055.1	910.7
Undepreciated amount relating to revaluations	<u>123.5</u>	<u>127.6</u>	<u>94.8</u>	<u>101.8</u>
Value as shown on the assets side of the balance sheet	1,843.5	1,620.4	1,149.9	1,012.5
Less: Accumulated excess depreciation ¹	<u>-718.2</u>	<u>-574.5</u>	<u>-603.2</u>	<u>-491.8</u>
Net book value	<u><u>1,125.3</u></u>	<u><u>1,045.9</u></u>	<u><u>546.7</u></u>	<u><u>520.7</u></u>
Assessed valuation ²	1,370.7	1,311.6	1,044.2	967.5

¹ Additional accumulated excess depreciation relating to construction in progress amounted to SEK 145.1 m. (12.5).

² Covers the Group's Swedish companies only.

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Land and other real estate				
Cost	395.7	359.7	197.9	179.0
Less: Accumulated depreciation according to plan	<u>-59.3</u>	<u>-52.3</u>	<u>-36.9</u>	<u>-32.6</u>
	336.4	307.4	161.0	146.4
Undepreciated amount relating to revaluations	<u>42.8</u>	<u>40.1</u>	<u>39.2</u>	<u>39.8</u>
Value as shown on the assets side of the balance sheet	379.2	347.5	200.2	186.2
Less: Accumulated excess depreciation	<u>-33.8</u>	<u>-27.8</u>	<u>-25.7</u>	<u>-19.4</u>
Net book value	<u>345.4</u>	<u>319.7</u>	<u>174.5</u>	<u>166.8</u>
Assessed valuation*	273.8	298.5	237.7	237.5

*Covers the Group's Swedish companies only.

17 Bank Loans, etc.

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Bank loans*				
Financing of				
installment contracts	73.9	89.7	—	—
leasing contracts	31.6	30.5	—	—
Overdrafts on checking accounts, etc.	526.5	329.3	172.9	88.7
Special financing credits	<u>556.4</u>	<u>504.9</u>	<u>35.4</u>	<u>116.9</u>
Total bank loans	1,188.4	954.4	208.3	205.6
Current maturities on long-term loans	298.2	335.8	207.7	233.4
Total	<u>1,486.6</u>	<u>1,290.2</u>	<u>416.0</u>	<u>439.0</u>

*The amounts shown relate to installment and leasing contracts on car and truck sales, local financing of subsidiaries and the Parent Company's short-term borrowings on the international capital market. Receivables and payables related to interest-arbitrage transactions were offset with an amount of SEK 376.8 m. (307.9) for the Group and SEK 376.8 m. (163.3) for the Parent Company.

18 Accounts Payable, etc.

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Accounts payable	1,860.9	1,944.6	1,034.4	1,186.8
Notes payable	<u>1,040.9</u>	<u>835.7</u>	<u>460.2</u>	<u>221.8</u>
Total	<u>2,901.8</u>	<u>2,780.3</u>	<u>1,494.6</u>	<u>1,408.6</u>

19 Other Current Liabilities

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Taxes	482.4	249.1	243.4	115.5
Other liabilities	777.1	956.5	235.0	386.9
Total	<u>1,259.5</u>	<u>1,205.6</u>	<u>478.4</u>	<u>502.4</u>

20 Long-Term Loans

In addition to the loans described in Note 14 the following long-term loans were outstanding at year-end:

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Unsecured loans				
Debentures in SEK	66.6	79.9	66.6	79.9
Other loans in SEK	362.1	252.7	204.3	181.5
Bond loans in DEM	—	25.8	—	25.8
Bond loans in USD	190.3	247.2	190.3	247.2
Other loans in foreign currencies	506.5	668.5	312.1	345.2
Secured loans				
From the National Pension Fund	177.1	212.5	120.3	159.8
Other loans in SEK	152.4	181.1	69.5	74.2
Loans in foreign currencies	239.7	65.4	8.9	—
Total	<u>1,694.7</u>	<u>1,733.1</u>	<u>972.0</u>	<u>1,113.6</u>

The loans, distributed by currency, were as follows:

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
SEK	752.9	746.7	460.7	495.8
USD	568.0	712.4	409.2	538.9
DEM	57.5	59.8	—	25.8
GBP	95.6	52.5	1.9	4.9
AUD	30.1	42.9	—	—
FRF	15.7	30.6	7.4	25.2
NLG	0.1	24.6	—	23.0
FIM	25.9	15.6	—	—
ATS	106.8	12.7	91.6	—
BEC	12.5	11.6	1.2	—
ARP	0.4	10.8	—	—
Other currencies	29.2	12.9	—	—
Total	<u>1,694.7</u>	<u>1,733.1</u>	<u>972.0</u>	<u>1,113.6</u>

The amortizations on the above-mentioned loans are distributed as follows:

<u>SEK millions</u>	<u>Group</u>	<u>Parent Company</u>
1987	381.6	247.4
1988	240.9	154.4
1989	410.3	336.0
1990	127.1	52.7
1991	109.1	37.2
1992 or later	425.7	144.3
Total	<u>1,694.7</u>	<u>972.0</u>

Maturities of the above loans which fall due in 1986 are accounted for as current liabilities in the balance sheet.

Unrealized exchange losses on long-term debts incurred by the Parent Company which accrue in coming years amounted to SEK 29.4 m. (105.5).

Definitions of the valuation of liabilities in foreign currency and the method of accounting for exchange differences appear in the section, "Accounting Principles."

21 Provision for Pensions

The provisions for pensions shown in the balance sheet correspond to pension obligations actuarially computed.

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Pension Registration Institute (PRI)	1,705.4	1,535.1	1,083.1	964.3
Other pensions	77.4	77.0	15.3	16.4
Total	<u>1,782.8</u>	<u>1,612.1</u>	<u>1,098.4</u>	<u>980.7</u>

22 Provision for Vehicle Damage Guarantee

Purchasers of Saab and Audi/Volkswagen passenger cars in Sweden are insured against vehicle damage of all kinds for a period of three years. The provision allocated covers the Company's unreinsured risks under this guarantee.

23 Untaxed Reserves

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Accumulated depreciation in excess of plan	3,827.1	3,008.3	2,984.5	2,321.8
Inventory reserve	2,669.3	2,395.7	1,919.5	1,761.5
General investment reserve	1,261.6	730.0	1,019.1	622.5
Statutory renewal reserve	214.8	—	178.0	—
Statutory investment reserve	34.1	354.5	—	283.0
Internal profit reserve	—	—	396.0	327.0
Reserve for contingency	13.8	—	—	—
Total	<u>8,020.7</u>	<u>6,488.5</u>	<u>6,497.1</u>	<u>5,315.8</u>

Accumulated depreciation excess in excess of plan

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
At the beginning of the year	3,008.3	1,954.2	2,321.8	1,480.9
Excess depreciation for the year	829.7	1,064.8	670.1	848.9
Less depreciation:				
on revaluations	-8.6	-8.2	-7.5	-7.5
on plants sold	-2.3	-2.5	—	-0.5
Total	<u>3,827.1</u>	<u>3,008.3</u>	<u>2,984.4</u>	<u>2,321.8</u>

Inventory reserve

In Sweden, as in certain other countries, the tax laws permit allocations to a general inventory reserve. In Sweden, such a provision may amount to as much as 50 percent of the value of the inventory at year-end.

The combined value of inventory reserves in the Saab-Scania Group's Swedish companies was SEK 2,686 m. (2,466) at year-end, equal to 46 percent (44) of the combined inventory value on the books of these companies.

The Parent Company's inventory reserve amounted to 50 percent (50) of the inventory value.

General investment reserve

In Sweden, operating companies may allocate up to 50 percent of their pre-tax income to an investment reserve. Seventy-five percent of these allocations, which are deductible for tax purposes, must be paid into a non-interest-bearing account with the Bank of Sweden.

The investment reserve may be utilized for direct write-off of fixed assets, subject to approval by government authorities, whereupon that portion of the account in the Bank of Sweden corresponding to the utilized amount may be withdrawn. Once a fixed asset has been directly written off in this manner, depreciation for tax purposes may be made on the residual value only.

The year's changes in the investment reserve were as follows:

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
At the beginning of the year	730.0	482.3	622.5	412.7
Funds utilized by approval				
Buildings	-308.5	-175.4	-279.2	-150.0
Machinery and equipment	-70.7	-270.4	-65.3	-217.7
Operating expenses	-158.9	—	-158.9	—
Transfer to subsidiaries	—	—	—	-17.5
Allocations during the year	1,069.7	693.5	900.0	595.0
At year-end	<u>1,261.6</u>	<u>730.0</u>	<u>1,019.1</u>	<u>622.5</u>

Statutory investment reserve

Swedish companies with an adjusted net income exceeding SEK 1 m. in 1983 and 1984 were required by law to make a deposit, amounting to 20 percent of adjusted net income, in a non-interest-bearing account with the Bank of Sweden. If a corresponding amount was allocated to a statutory investment reserve, this allocation was deductible for tax purposes. Utilization of the reserve is in principle subject to the same rules as those applying to the general investment reserve.

The year's changes in the statutory investment reserve were as follows:

<u>SEK millions</u>	Group		Parent Company	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
At the beginning of the year	354.5	243.7	283.0	203.0
Funds utilized by approval	-320.4	-238.8	-283.0	-203.0
Allocations during the year	—	349.6	—	283.0
At year-end	<u>34.1</u>	<u>354.5</u>	<u>—</u>	<u>283.0</u>

Statutory renewal reserve

Swedish companies with an adjusted net income in 1985 exceeding SEK 0.5 m. were required by law to make a deposit, amounting to 10 percent of adjusted net income, in an account with the Bank of Sweden. If a corresponding amount is allocated to a renewal reserve, this allocation is deductible for tax purposes. The renewal reserve may be utilized for education of employees and for research and development.

Internal profit reserve

Under existing tax rules in Sweden, a company which uses foreign subsidiaries for marketing abroad may make an allocation to an internal profit account. In principle, the allocation may amount to the difference between the price charged to the subsidiaries for remaining inventories and the cost to the company of acquiring such inventories.

24 Stockholders' Equity Group

<u>SEK millions</u>	<u>Capital stock</u>	<u>Statutory reserves</u>	<u>Unrestric- ted stock- holders' equity</u>	<u>Total</u>
January 1, 1985	1,218.4	1,131.1	1,555.6	3,905.1
Allocations to statutory reserves and stock dividends	—	48.0	-43.1	4.9*
Dividends	—	—	-242.8	-242.8
Net income for 1985	—	—	642.7	642.7
December 31, 1985	<u>1,218.4</u>	<u>1,179.1</u>	<u>1,912.4</u>	<u>4,309.9</u>

*Stock dividend through revaluations of subsidiaries' real estate and sale of bonus shares not withdrawn.

Part of the unrestricted stockholders' equity in foreign subsidiaries will be subject to taxation in the event it is transferred to Sweden.

Of the year-end figure shown for unrestricted stockholders' equity, SEK 26.5 m. is to be allocated to statutory reserves and proposed stock dividends.

Parent Company

<u>SEK millions</u>	<u>Capital stock</u>	<u>Statutory reserves</u>	<u>Unrestric- ted stock- holders' equity</u>	<u>Total</u>
January 1, 1985	1,218.4	567.0	881.3	2,666.7
Sale of mutual funds	—	0.9	—	0.9
Dividends				
Common stock	—	—	-242.5	-242.5
Preferred stock	—	—	-0.3	-0.3
Net income for 1985	—	—	505.4	505.4
December 31, 1985	<u>1,218.4</u>	<u>567.9</u>	<u>1,143.9</u>	<u>2,930.2</u>

25 Assets Pledged

<u>SEK millions</u>	Group		Parent Company	
	1985	1984	1985	1984
Real estate mortgages	498.7	481.6	212.4	212.8
Chattel mortgages	1,507.6	1,493.9	1,351.0	1,351.0
Net assets and shares in subsidiaries, respectively	26.2	52.6	26.2	52.5
Bank accounts	466.5	457.2	458.0	451.0
Receivables	309.8	396.9	146.0	212.0
Leasing cars	31.1	22.6	—	—
Inventories	0.1	0.2	—	—
Total	<u>2,840.0</u>	<u>2,905.0</u>	<u>2,193.6</u>	<u>2,279.3</u>

26 Contingent Liabilities

<u>SEK millions</u>	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Discounted bills	332.4	501.7	—	—
Sureties				
for subsidiaries	—	—	709.1	676.1
for other companies	130.6	125.6	52.6	57.0
Guarantees	332.4	387.8	232.1	265.0
Other contingent liabilities	64.5	30.6	26.9	3.9
Total	<u>849.9</u>	<u>1,045.7</u>	<u>1,020.7</u>	<u>1,002.0</u>

27 Average Number of Employees, Wages, Salaries and Other Remuneration*

	<u>Group</u>		<u>Parent Company</u>	
	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>
Operations in Sweden				
Number of municipalities	83	98	18	18
Number of worksites	182	190	25	25
Average number of employees	36,567	35,116	27,011	25,346
Wages, salaries and other remuneration, SEK m.	3,903.7	3,449.0	2,837.5	2,463.0
Operations outside Sweden				
Number of countries	30	29	15	14
Average number of employees	8,614	7,939	316	305
Wages, salaries and other remuneration, SEK m.	932.2	710.6	9.3	9.3
Total average number of employees	45,181	43,055	27,327	25,651
Total wages, salaries and other remuneration, SEK m.	4,835.9	4,159.6	2,846.8	2,472.3

*A detailed table showing the average number of employees and the amounts of remuneration has been included in the Annual Report filed with the Swedish Patent and Registration Office. This table may be acquired from the Parent Company head office in Linköping.

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in Sweden

<u>General Information</u>	<u>Answers</u>	<u>Comments</u>
1. Is a primary purpose of an audit—		
a. To attest to information used by investors, creditors, and so forth?	Yes	
b. To satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. For tax purposes?	Yes	
2. A. The United States has ten generally accepted auditing standards including general	Yes	

Notes:

Checklist should be completed from the perspective of performing a local audit, not a referral audit.

AU section numbers refer to sections in the *Codification of Statements on Auditing Standards*, unless otherwise noted.

Legend to checklists: CA refers to the Companies Act; AA refers to the Accounting Act. FAR refers to FAR recommendations, which are not necessarily required, unlike provisions of the Companies Act or Accounting Act. See appendix A for a listing of the FAR recommendations.

General Information

standards, standards of fieldwork, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards that have been published in *Codification of Statements on Auditing Standards*. Do generally accepted auditing standards exist in Sweden?

B. If so, are they published?

C. If auditing standards exist in Sweden, are they similar to U.S. standards?

D. If not, what are they?

Yes
Fairly similar, but not as detailed as U.S. standards

3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, and so forth)?

The Swedish Institute of Authorized Public Accountants (PAR)

<u>U.S. Generally Accepted Auditing Standards</u>	<u>Required by Government or Professional Pronouncement</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
4. Do auditors confirm receivables? (AU sec. 331)	No	✓			
5. Do auditors observe inventory counts? (AU sec. 331)	No	✓			
6. Do auditors receive written representations from management? (AU sec. 333)	No	✓			
7. Do auditors receive written representations from	No	✓			

Answers

Comments

	management's legal counsel? (AU sec. 337)		
8.	A. Do auditors prepare and maintain working papers? (AU sec. 339)	Yes. FAR	✓
	B. If so, do they include a written audit program outlining procedures to be performed? (AU sec. 339)	Yes. FAR	✓
9.	Do auditors study existing internal controls as a basis for reliance thereon in determining the nature, extent, and timing of audit tests to be performed? (AU sec. 320)	Yes. FAR	✓
10.	A. Do auditors communicate material weaknesses in internal accounting control to senior management or the client's board of directors? (AU sec. 323)	Yes. FAR	✓
	B. If so, is the communication documented? (AU sec. 323)	Yes. FAR	✓
11.	In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU sec. 350)	No	✓
12.	Is the auditor responsible for planning his examination to search for errors or irregularities that would have a material effect on the financial statements? (AU sec. 327)	No	✓
		11. Normally, nonstatistical sampling is applied.	
		12. It is not a specific requirement to prevent or discover fraud, or other improprieties; however, the FAR emphasizes that the auditor should be aware that such things may occur.	

<u>U.S. Generally Accepted Auditing Standards</u>	<u>Required by Government or Professional Pronouncement</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU sec. 334) B. If so, list the procedures.	Yes. CA	✓			13A. Companies Act requires a schedule of loans to management personnel to be prepared when the facts so require. 13B. Procedures include— • Inquiries of management. • Checking loan documents to verify who received loan.
14. Does the auditor consider the adequacy of cut-off procedures to insure that movements into and out of inventories are properly identified in the accounting records? (AU sec. 313)	Yes. FAR	✓			
15. A. Are specific auditing procedures applied to transactions occurring after the balance-sheet date? (AU sec. 560) B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU sec. 560)	No No	✓ ✓			
16. The concept of "joint auditors" in certain countries (for example, the United Kingdom, Canada, and Australia) is that two auditors or audit firms jointly audit the	Yes. CA	✓			16. Allowed by the Companies Act, if properly voted on by shareholders.

financial statements of a company and issue a single report signed by the two law firms. This practice is not generally followed in the United States. Does the concept of "joint auditors" exist in Sweden?

17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees (AU sec. 543)—

- A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion? No
- B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility? Yes. FAR

- 18. A. Is there a standard form of auditor's report? (AU sec. 509) Yes. FAR
- B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU sec. 509)

17B. FAR recommendation on auditing matters, *The Audit of Consolidated Financial Statements*, states that an auditor should consider the necessity of indicating in his report the division of responsibility.
18A. See appendix C.

18B. (1) Any material departure from the requirements of the Companies Act requires an "except for" statement regarding compliance with it; major departures require an adverse statement. (2) Any reason for not recommending adoption of financial statements, discharge of

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
<p>19. A. Does the auditor's report express an opinion on the consistency of application of accounting principles? (AU sec. 420)</p> <p>B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?</p>	No	✓		✓	management's liability, or the proposal for disposition of unappropriated earnings or deficit should be fully disclosed in the auditor's report.
<p>20. A. Is the auditor's report dated as of the last day of fieldwork? (AU sec. 530)</p> <p>B. If not, what date is used?</p>	No	✓		✓	<p>19B. With respect to application of the Companies Act requirement of proper disclosure of any changes of accounting practices.</p> <p>20A,B. In Sweden the report is dated as of the date of signing, which usually coincides with the last day of fieldwork.</p>
<p>21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client (<i>Code of Professional Ethics</i>, rule 101).</p>	Yes. CA	✓			
<p>22. Please describe any standards for Sweden for which there are no corresponding U.S. standards.</p>					<p>22. The audit of consolidated accounting. Also, see appendixes A and B for the list of Swedish standards.</p>

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in Sweden

<u>General Information</u>	<u>Answers</u>	<u>Comments</u>
1. Are there generally accepted accounting principles in Sweden? If so, are they codified?	Yes	1. There are generally accepted accounting principles in Sweden. They are codified in the form of FAR recommendations, BFN notices, and various laws including tax laws.
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, and so forth)?	Swedish Institute of Authorized Public Accountants (FAR); National Accounting Standards Board (BFN); Legislation.	

Note: Parenthetical references are to sections in the *FASB Current Text*, unless otherwise noted. See note in Appendix D for definitions of CA, AA, and FAR.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement		Minority Practice	Not Done	Comments
	Yes. CA	No			
3. Are assets and liabilities recorded on the historical cost basis?	✓				
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (167)		No	✓		
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40) B. If so, define the basis.	Yes. CA		✓		
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determinable within reasonable limits? (N35)	No				5B. Up or down to fair value, whichever is applicable.
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. AA		✓		
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. AA		✓		

9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. CA	✓	
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	Yes. CA	✓	
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. CA	✓	10A. It is very rare that control is present and the entity is not consolidated.
B. If so, list them.			10B. First year of consolidation, if it is impossible to obtain meaningful information or if subsidiary operates under conditions that restrict transfer of funds to parent.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (182)	No	✓	11. The cost method is the predominant practice.
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	Yes. FAR	✓	12. Purchase method is the predominant practice.

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncement</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
13. Is the method used to account for a business combination disclosed? (B50)	Yes. FAR	✓			
14. A. Do criteria exist for treatment of business combinations as poolings of interests? (B50) B. If so, list the criteria.	Yes. FAR				14B. Criteria for pooling: (1) Merger must take place through the issuance of shares by acquiror. (2) Neither company is dominating in size over the other. (3) Continuity of activities by both entities exists.
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60) B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. AA; FAR Yes. AA; FAR	✓ ✓			15B. The maximum amortization period is ten years.
16. Are the following disclosures made for related party transactions: (R36) a. The nature of the relationship? b. A description of the transactions for the periods presented? c. The amounts of the transactions for the periods presented?	Yes. CA Yes. CA Yes. CA	✓ ✓ ✓			16. The Companies Act requires management to prepare a list of loans, and so forth, made to management personnel if facts so require. Also, transactions with subsidiaries and other related entities must be disclosed.

- d. The amounts due to or from related parties at the balance sheet date? Yes. CA ✓
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59) No ✓
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59) Yes. CA; AA; FAR ✓
18. Swedish companies are required to disclose all contingent liabilities and loan guarantees. Information similar to related party disclosures in the United States (see question 16) is required for loan guarantees.
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59) Yes. CA; AA; FAR ✓
19. See question 18.
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)
- a. Sales to outsiders and intersegment sales? No ✓
- b. Operating profit or loss? Yes. CA; AA; FAR ✓

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
<i>c.</i> Identifiable assets and related depreciation, depletion, and amortization expense?	No		✓		
<i>d.</i> Capital expenditures?	No	✓			
<i>e.</i> Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No		✓		
<i>f.</i> Effect of a change in accounting principle? (AU sec. S20)	No		✓		
21. A. Are there any requirements to disclose the effects of inflation? (C27)	No		✓		21A. Information regarding inflation is rarely disclosed.
B. If so, list the disclosures required.					
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. AA; FAR	✓			
23. A. Are noncurrent assets those not expected to be realized within one year of the current operating cycle? (B05)	Yes. AA; FAR	✓			
B. If not, how are noncurrent assets defined?					
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. AA	✓			24A,B. The Accounting Act states that receivables should be

carried at the amount which is expected to be received. Professional judgment is used to determine amounts deemed uncollectible.

✓

B. If so, what is the basis (for example, percentage of sales, aging of receivables, and so forth) for calculating the allowance?

No

25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (169)

Yes. AA

26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (178)

B. If not, how is inventory stated?

Yes. AA

C. Are the basics disclosed?

27. Does cost for inventory purposes include—(178)

a. Materials?

b. Direct labor?

c. Factory overhead?

d. If the answer to c is yes, is an allocable share of all factory overhead included?

Yes. AA

Yes. AA

Yes. AA

Yes. AA

28. A. Are the following cost methods permitted for reporting purposes: (178)

a. First-in, first-out (FIFO)?

b. Last-in, first-out (LIFO)?

c. Average cost?

B. Are the same methods permitted for tax purposes?

Yes. AA

No

No

Yes. Tax law

28A,B. See paragraph 67 of text.

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncement</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
29. Is the inventory costing method used disclosed? (I78)	Yes. AA; FAR	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. AA; FAR	✓			
B. If so, is an accumulated depreciation account used?	Yes. AA; FAR	✓			
31. Are disclosures made of—(D40)					
a. Depreciation expense for the period?	Yes. AA; FAR	✓			
b. Balances of major classes of depreciable assets?	Yes. AA; FAR	✓			
c. The methods used to compute depreciation for the major asset classes?	Yes. AA; FAR	✓			
d. Accumulated depreciation, either by major class of assets or in total?	Yes. AA; FAR	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	No	✓			32A. The FAR briefly addressed the topic by recommending that leases including an obligation to purchase the asset be capitalized. The predominant practice is to classify leases as operating leases.
B. If so, list the criteria and disclosure requirements.					

33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	No	✓
B. If so, list the criteria, type of lease, and disclosure requirements.		
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. AA; FAR	✓
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	Yes. AA; FAR	✓
B. If not, how are noncurrent liabilities defined?		
36. For notes payable, is disclosure made of—(C59 and Statement of Financial Accounting Concepts No. 5)		
a. Interest rates?	No	✓
b. Maturities?	No	✓
c. Assets pledged as collateral?	Yes. CA; AA; FAR	✓
d. Covenants to reduce debt?	No	✓
e. Minimum working-capital requirements?	No	✓
f. Divided restrictions?	Yes. If any, CA	✓
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed-contract method used? (Co4)	No	37A. The completed-contract method of recognizing profit on long-term construction contracts is the predominant practice.

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncement</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
B. If so, what are the criteria for determining the method to be used?					
38. A. Are research costs charged to expense when incurred? (R50)	No	✓			38A. The Accounting Act also allows such costs to be capitalized and amortized over a maximum of five years. 38B. Such costs are generally not disclosed.
B. Are such costs disclosed?	No				39A,B. See 38A,B.
39. A. Are development costs charged to expense when incurred? (R50)	No				
B. Are such costs disclosed?	No				
40. A. In the United States events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in Sweden? (117)	Yes. Draft FAR	✓			40A,B. FAR draft recommendation for extraordinary items does not limit such classifications to only items that are infrequent in occurrence and unusual in nature. Many items are included as extraordinary even if only one of the two criteria is met.
B. If not, what are the criteria?	No				41. See question 40.
41. Are material events or transactions that are unusual in nature or expected to occur infrequently, but not both (and thus do not meet	No				

<p>the criteria for classification as extraordinary), shown as a separate component of income or expense? (I22)</p>				<p>42A.B. Items <i>b</i> and <i>c</i> would normally be included as extraordinary items in Sweden.</p>
<p>42. A. Are disclosures required for—</p> <p>a. Extraordinary items? (I17)</p> <p>b. Material events or transactions not classified as extraordinary items? (I22)</p> <p>c. Disposal of a segment of a business? (I13)</p> <p>B. Indicate the financial statement presentation of these items.</p>	<p>Yes. CA; AA; draft FAR</p> <p>No</p> <p>No</p>	<p>✓</p>		
<p>43. A. Are pension costs provided for covered employees over the term of employment? (P15)</p> <p>B. If so, do they include charges for costs assigned under the actuarial method used two years prior to the plan's inception?</p>	<p>Yes. AA</p> <p>Yes. AA</p>	<p>✓</p> <p>✓</p>		
<p>44. A. Are specific disclosures required relating to pension plans? (P15)</p>	<p>Yes. AA; FAR</p>	<p>✓</p>		<p>44A. The Accounting Act requires that recorded pension liabilities be classified as separate headings under long-term liabilities and also requires that the annual amount of pensions be disclosed. FAR strongly recommends disclosure and the setting up of a liability.</p>

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncement</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
B. If so, list them.				<input checked="" type="checkbox"/>	
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for differences (as opposed to permanent differences)? (I24)	No			<input checked="" type="checkbox"/>	45A. Deferred tax accounting is not found in Sweden.
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?					
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?					
46. A. Are deferred taxes determined on the basis of tax rates in effect at the time the difference originated? (I24)	No			<input checked="" type="checkbox"/>	46A, B. See question 45A.
B. If not, on what basis?					
47. A. Is specific information related to income taxes required to be disclosed? (I28)	Yes. AA; FAR	<input checked="" type="checkbox"/>			
B. If so, list the requirements.					47B. The only required disclosure is that the amount of income taxes for the period be included on the income statement. Rarely are further disclosures presented.

<p>48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (137)</p> <p>B. If so, are the tax effects of a loss carryback included in the income in the period?</p>	No	✓	48A. Not allowed.
<p>49. A. Are operating losses reported on the income tax return allowed to be carried forward? (137)</p> <p>B. If so, are the tax effects of a loss carryforward included in the income in the period realized?</p>	Yes. Tax law	✓	49A. Tax law allows net operating loss carryforwards up to ten years following the year sustained.
<p>50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)</p>	No	✓	
<p>51. Are all elements of financial statements translated at current exchange rates? (F60)</p>	No	✓	51. Currently, there is a proposal to amend the Accounting Act to require the use of current rates for receivables and payables.
<p>52. A. Are translation adjustments reported separately? (F60)</p>	No	✓	
<p>B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?</p>	No	✓	

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncement</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	No	✓			
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	No	✓			
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	No	✓			
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transaction? (F60)	No	✓			
55. What information is disclosed about foreign currency restrictions?					55. Basis of translating foreign currencies is required by the Companies Act and Accounting Act as part of the consolidation policy.

- | | | | |
|--|----------------|----------|---|
| <p>56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto?</p> | <p>Yes. AA</p> | <p>✓</p> | <p>56. Generally included in the notes to financial statements.</p> |
| <p>57. Please list any standards for Sweden for which there are no corresponding U.S. standards.</p> | | | <p>57. See appendices A and B. Most BFN standards do not have corresponding U.S. standards.</p> |

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